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ECONOMIC AND INDUSTRIAL AFFAIRS

No. 2452

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ERRATUM: In JPRS 84294 of 9 September 1983, No 2446 of this series, pp 123-124, in article NATIONALITY STRUCTURE OF EMPLOYED PERSONS IN KOSOVO, please change FAP throughout article to SAP, and second sentence of article should read "national structure of the employed workers in the Socialist Autonomous Province [SAP] of".

INDUSTRIAL PRODUCTION DURING JANUARY-JULY PERIOD, COMMENT

Sofia IKONOMICHESKI ZHIVOT in Bulgarian 17 Aug 83 p 4

[Text] During the period from January through July, rhythmical production of a number of important industrial articles has been achieved. The production of some of them during the last seven months, and the rate of increase, compared with the same period last year, are as follows:

<u>Category</u>	<u>Production generated</u>	<u>Rate of increase, in percent</u>
Electrical energy (in millions of kilowatthours)	24510	106.2
Sheet steel -- cold rolled (in thousands of tons)	372	101.3
Steel pipe (in thousands of tons)	164	102.9
Multi-purpose machines (number)	146	114.1
Forklift trucks (number)	77713	103.5
Electric trucks (number)	23034	100.3
Motor trucks (number)	16511	124.5
Induction engines (in thousands)	738	105.6
Electric tools (in thousands)	211	105.4
Electrometers (in thousands)	292	109.0
Nitrogen fertilizers (in thousands of tons)	474	102.2
Polyvinylchloride (in thousands of tons)	59	125.7
Laundry detergents (in thousands of tons)	35	108.5
Tires for cars (in thousands)	429	107.5
Cement (in thousands of tons)	3259	100.3
Large reinforced concrete panels (in thousands of cubic meters)	860	108.4
Reinforced concrete construction prefabs (in thousands of cubic meters)	521	106.3

Furniture (in millions of leva)	250	106.6
Glass jars and bottles (in millions)	1119	104.8
Ceramic tiles (in millions)	183	100.1
Cotton fabrics (in millions of meters)	213	100.8
Silk fabrics (in millions of meters)	22	104.4
Meat (in thousands of tons)	285	106.7
Meat products (in thousands of tons)	58	103.6
Butter (in tons)	15396	112.8
Cheese (in tons)	73377	119.8
Yellow cheese -- kashkaval (in tons)	18524	106.8
Prepared and semi-prepared food (in thousands of tons)	25	108.1
Canned fruit (in thousands of tons)	131	107.6
Beer (in millions of liters)	349	100.8
Non-alcoholic beverages (in millions of liters)	293	108.5
Processed ripened tobacco (in thousands of tons)	77	114.8
Tobacco products (in thousands of tons)	52	103.8

During the period January-July, the industrial enterprises produced about 200 million leva, or .9 percent more commodity production. The estimate for revenue from the manufactured commodity production is .3 percent above the plan. Compared to the same period last year, 5.2 percent more commodity production has been manufactured and 5.4 percent greater revenue has been achieved from its implementation.

The fulfillment of the seven month estimates for manufacture and implementation of commodity production within the systems of the individual ministries and administrations is as follows:

Organizations within the systems of ministries and other administrations	Fulfillment of the plan, in percent, for:	
	<u>manufactured</u> <u>commodity production</u>	<u>realized</u> <u>commodity production</u>
Total:	100.9	100.3
of this number:		
Power Supply	100.3	102.0
Chemical Industry	100.5	100.0
Metallurgy and Mineral Resources	100.8	92.7
Machine Building and Electronics	101.3	102.6

Light Industry	100.7	100.8
National Agrarian and Industrial Union	101.3	100.4
Forests and Forest Industry	101.0	101.2
Construction and Architecture	100.2	99.6
Transportation	100.9	100.7
Communications	101.4	101.4
Internal Trade and Public Services	99.3	99.2
Central Cooperative Union	100.1	98.6
Sofia People's Council	107.1	107.6

Committee for a Uniform System of Social Information

Commentary

During the first seven months of this year, industrial production continued to grow steadily. The plan for the basic quantity and quality indices has been overfulfilled. Greater combined profit has been realized, and the plan for growth in social labor productivity has been overfulfilled.

The overfulfillment of the plan for the month of July, and the anticipated quantity of production during the month of August, set the prerequisites for the fulfillment of the production plan and increasing its effectiveness, not only for the nine-month period, but for the whole year as well.

At present, it is very important to pay attention to the following:

Steady fulfillment of the production plan and overcoming the lag allowed by some enterprises and economic organizations in respect to the total amount of production, and particularly in respect to some basic products.

Enterprises which have not fulfilled the production plan are behind by approximately 140 million leva. The analysis of the causes for this lag points again to the most frequent non-fulfillment of contracts -- supplying raw materials and materials, as well as the cooperative supplies, breakdowns of machines and equipment and related emergency repairs, delay in timely implementation of new and improved products and technologies, and other causes of a subjective nature.

Further reduction of the materials used. The results achieved so far do not yet guarantee an additional decrease in the use of materials everywhere by two or three points more than the state plan goal, which was assigned at the October Conference (1981) to all enterprises and economic organizations. The main difficulties in fulfilling this goal are violations of the technological rate of operation and greater use of raw materials, materials, fuel, and energy for the various products than anticipated in the norms, insufficiently planned yield, delay in implementing planned activities for technical progress, and lack of anticipated efficiency in some of them.

Overall fulfillment of the plan for combined profit by all enterprises and economic organizations. The main difficulties here, in addition to the non-fulfillment of the production plan, are in exceeded prime cost, which is due in large part to the higher usage of materials than planned.

Timely realization of manufactured production. For the month of July, for example, the commodity production plan has almost been fulfilled (99.8 percent), whereas the plan for monetary revenue has not been fulfilled, by two percent. On the whole, for the period from January through July, more than six hundred enterprises have fallen behind on this indicator, and there is a monetary asset shortage of 200 million leva for these enterprises in realized production, compared to what was planned. It is necessary for the managements of the enterprises and economic organizations, especially those which are falling behind, to take quick and effective measures for timely realization of production, which will help them greatly to overcome the lag in fulfilling the plan for their combined profit.

12334

CSO: 2200/142

CSSR AIR TRANSPORT IN SEVENTH FIVE-YEAR PLAN DISCUSSED

Prague LETECTVI A KOSMONAUTIKA in Czech No 13, 1983 p 481-483

[Article by Eng Jiri Nulicek, head of the Civil Aviation Department of the CSSR Ministry of Transportation: "Czechoslovak Civil Aviation in the Seventh 5-Year Plan"]

[Text] The criterion of high national economic efficiency as stipulated by the CSSR Government resolutions No 175 and 176 of 1979 and No 29 of January 1982, and the requirement of more intensive integration cooperation within CEMA countries have been observed in the recent development of civil aviation in the CSSR. In our domestic air transportation priority has been assigned to the CSSR connections with the principal political, economic and tourist centers of the CEMA countries and to the connections required by Czechoslovak transportation needs, including transportation to those areas for which otherwise considerable funds in the currencies of nonsocialist states would have to be spent. Also important are air connections to those nonsocialist countries to which air carriers of other CEMA countries cannot fly because of the measures taken by the states involved.

In the domestic air network operated by the Czechoslovak Airlines [CSA], the scope of regular routes and transportation service was--as is known--reduced to the socially indispensable minimum. Some transports shifted from air transportation to other sectors which are more advantageous and more economical from the standpoint of funds expended and energy requirements.

The 15th CPCZ Congress stipulated the increase in the safety of air traffic as one of the principal tasks of Czechoslovak civil aviation. This task was based on the urgent need to check the trend of serious air accidents from the middle of the 1970's. For this reason, we adopted a number of measures in the area of personnel, legislation, inspection and control, and instituted a consistent investigation of all accidents in air transportation. The revised principles for averting airplane accidents were put into effect. The qualification requirements for flight personnel were raised. Mandatory checks on fitness of crew members and air traffic controllers were introduced.

There has not been a single disaster with a toll of lives among the passengers and crew members in Czechoslovak air transportation since the second half of the Sixth 5-Year Plan. The number of preconditions for air accidents also

significantly declined. This fact, as well as adopted measures and their consequences, had a political and social impact: the prestige of Czechoslovak air transportation increased in the consciousness of workers in Czechoslovak civil aviation as well as in the general public.

Despite the favorable trend in the development of safety standards in air transportation, however, airplane accidents have not been completely eliminated particularly in the area of air operations for agriculture and other sectors of our national economy. It is, therefore, imperative to continue in prevention and demanding control in regard to the observation of adopted measures especially because the human factor is to an increasing degree responsible for these mishaps. The high safety standard must become a permanent feature and must be based on the systematically revised norms and principles of cooperation between all components which can contribute to safety in this area. The program, must, therefore, be so formulated that the effective guidelines of the State Air Inspection Office, placing emphasis on competence of airplane personnel, conform to the changing needs of civil air transportation and increasing safety standards. The rules for evaluation of crews' activity must be in accordance with these requirements and increasing attention must be paid to the results of objective checks. The regulations in the flight and flight-technical areas also must flexibly react to the needs of full effective utilization of aircraft and airport efficiency parameters which must be formulated with reference to the latest achievements of medical science. The building of training facilities for workers in key jobs of civil aviation (pilots, air traffic controllers and technical personnel) as well as a system of training bases for workers in civil aviation of other CEMA countries is part of the program which we will gradually implement.

The 16th CPCZ Congress ordered a general rationalization in air transportation, substantial economizing in airplane operation and reduction of airplane fuel consumption. Thus, during the 1980-1981 period, a program was implemented which stressed the reduction of airplane fuel consumption and higher efficiency of air transportation. In accordance with this program we effected a radical measure: we gradually restricted or completely discontinued operation on unprofitable routes of the domestic and international network of the CSA. From the original 14 Czechoslovak airports serviced by scheduled CSA flights only 8 remained open to civil traffic. The task of meeting the former demand for CSA service was assumed by other types of public transportation which are less costly and require less energy. The effects of these measures became apparent even in 1981, when in comparison with 1980 we achieved a reduction of air fuel consumption (by 12,700 tons), that is, by almost one-third and the subsidies to air transportation in terms of comparative cost were able to be reduced by Kcs 60 million.

By its Resolution No 29 of 26 January 1982, the CSSR Government approved the "Principles of Further Development of Czechoslovak Civil Aviation up to 1985." In accordance with these principles, the scope of domestic air transportation on the main routes was further reduced to a minimum compatible with the needs of our society and national economy. Because of the demand, air connections from Prague to Piestany and Karlovy Vary was continued on an experimental basis and then, after the evaluation of its social asset and

significance for the Czechoslovak spas, it was decided to maintain it in full scope. The effect of measures gradually implemented in domestic air transportation was reflected by the end of 1982 in the consumption of airplane fuel, which was 51.5 percent lower than in 1981, while the subsidy to domestic air transportation decreased another Kcs 59.3 million during the same period.

Furthermore, measures were adopted aimed at achieving the specified dynamism of development of international air transportation in accordance with the principles spelled out in the CSSR Government Resolution No 29. The measures were obviously effective because the volume of transportation service increased almost 7 percent in 1982 in comparison with 1981. This increase was achieved primarily by the opening of a new air route to the Vietnam Socialist Republic [VSR] in May 1981 and a general increase in the average utilization of aircraft capacity (from 6.5 to 8.3 tons) on the international routes of CSA. On some routes, for example, to the VSR, the carrying capacity of aircraft was on the average utilized 89.0 percent, on routes to Cuba 85.8 percent, to North America 81.4 percent and the Far East 79.0 percent, which in scheduled international transportation far exceeds the worldwide average. These results achieved by CSA on international routes by the reduction of the number of kilometers flown and simultaneous increase in the use of aircraft carrying capacity are in full agreement with the requirement of increasing efficiency and reducing the consumption of airplane fuels. They were reflected in the favorable economic result of Czechoslovak air transportation as well as in compliance with the indicator of energy consumption. Also effective were the measures adopted by the Federal Ministry of Transportation in concert with the Czechoslovak State Bank which emphasized the enforcement of transportation discipline in the use of CSA to those states which would have to pay for air transportation in foreign exchange (if the route were not serviced by CSA). In 1982, CSA carried out transportation on the international routes worth almost Kcs 87 million and foreign-exchange savings in transportation to the nonsocialist states increased Kcs 33 million in comparison with 1981.

The orientation to the intensive and effective development of Czechoslovak international air transportation and rationalization of domestic transportation led to setting lower limits for use of airplane fuels and to the specification of lower standard consumption. This was done according to the state goal-oriented O2 Program which ordered a 5.5 percent reduction by 1985 in comparison with 1980. The goal of Government Resolution No 29 is being met: the consumption of airplane fuels in the CSSR in 1982 was 14 percent lower than in 1981 and 16.2 percent lower than in 1980. Due to the rationalization measures affecting the CSA routes, the system of flying and flexibility in the use of specific types of aircraft, as well as to the better utilization of airplane carrying capacity, the consumption of airplane fuels has registered a favorable trend. The state goal-oriented O2 Program has been implemented since 1982: standard consumption was 13.3 percent lower than during the same period of 1981 and 7.9 percent lower than the 1982 plan anticipated.

The fulfillment of transportation tasks resulted in the improvement of the planned economic result in freight transportation both in terms of total value

and foreign exchange. It is not necessary to say anything more about the reduced need of subsidies which is demonstrable. It is worth noting, however, that the economic result in international freight transportation in 1982 significantly--by Kcs 78 million--improved in comparison with 1981. The operational losses were thus eliminated for the first time because receipts from regular routes and unscheduled flights exceeded cost.

This line laid down for air transportation is of long-term validity. The principal task in the Seventh 5-Year Plan, too, is to achieve the necessary stability, in further development of air transportation to observe the principle of efficiency at all levels, in merchandizing policy plans and their implementation. The requirement to focus attention on improving the management of foreign-exchange resources remains a permanent task. It will be necessary to further improve the higher forms of cooperation with the carriers of CEMA countries, to make a constant effort to improve the contractual terms stipulated by foreign states for use of transportation rights on the CSA routes abroad. Finally, it will be necessary to intensify cooperation of air enterprises and institutions with the Czechoslovak organs and organizations of foreign trade and tourism in securing the needs of the Czechoslovak national economy and Czechoslovak transportation needs abroad.

It is generally known that, in addition to air transportation, Czechoslovak civil aviation is also engaged in other types of activity. It may also be known that Czechoslovak civil aviation has also assumed, among other things, the task of spraying approximately 6 million average hectares of agricultural and forest land in 1985. This scope of operations for agriculture and forestry is 18 percent greater than in 1980. It is based on the resolution of the CPCZ Central Committee which has ordered, in order to promote the development of agriculture, spraying one-fifth of the area of agricultural land annually up to the end of the Seventh 5-Year Plan. In 1981, the aircraft sprayed 5.29 million average hectares with the help of Aeroflot crews and equipment which significantly contributed to the observation of agronomic deadlines, particularly in the second quarter of that year. In 1982 we sprayed--exclusively with our own labor force and equipment--5.49 million average hectares, which represents a 7.8 percent increase in output. It is necessary to add that the specified agronomic deadlines were observed (64.8 percent of them by the end of the first half-year) and that planned outputs were attained in 8 of the 10 krajs of the CSSR.

In order to carry out the plans, it was necessary to build up and furnish the technical basis. The airplane fleet was modernized, supplemented and expanded during the Sixth 5-Year Plan. The fundamental changes in the management of airplane fuel supplies and changed economic conditions were reflected in the first 2 years of the Seventh 5-Year Plan in the reduction of time during which the aircraft were used. In connection with the marked reduction of transportation service and domestic CSA network due to the economy measures in consumption of airplane fuels it was necessary to take another step: to eliminate from operation the aircraft of the L-410 type and restrict operation of aircraft of the JAK-40 type. More transportation airplanes will be eliminated during the second half of the Seventh 5-Year Plan: 13 airplanes of the Il-18, TU-134A and Il-62 types after they reach

the end of their service life. At the present time, the problem of their replacement is being discussed with the Ministry of Foreign Trade which signed a contract for the purchase of new airplanes in the Soviet Union stipulating the date of delivery toward the end of the Seventh 5-Year Plan and during the Eighth 5-Year Plan. Together with the replacement of the airplane fleet, great attention will be paid to the increase in reliability, operativeness and efficiency of air equipment, to the development of progressive methods of maintenance and repair. There are plans for the introduction of optimum systems of maintenance and repair of aircraft with a wider application of maintenance according to the actual technical condition of individual planes and wide use of computerized checks.

With reference to planned air service for agriculture, approval was given for the manufacture of 40 planes of the Z-37A type which will augment the Slovair fleet already during the current 5-year plan. The problem of fulfilling the tasks during the next period is directly related to the development of a new airplane for agriculture as well as to the delivery of helicopters. A modern Slovair repair center at the Bratislava Ivanka Airport is being built which will secure the high operativeness of airplanes and helicopters designed for work in agriculture and various sectors of our national economy. Its construction is to be completed this year.

Apart from transporation, the organs and organizations of Czechoslovak civil aviation must also render services to other operators outside the civil aviation sector and to foreign air carriers. It is worth noting that 73,825 movements of aircraft took place at 8 CSSR airports in 1982, 37 percent, or 27,348 of which were CSA aircraft movements, and 46,477 movements of other Czechoslovak and foreign operators. All Czechoslovak civil transportation airports, particularly Prague and Bratislava international airports, have been furnished with the necessary ground and safety equipment. In accordance with the previous resolutions of the CSSR Government Presidium, all Czechoslovak civil airports were furnished with modern instruments and equipment both Czechoslovak and foreign-made during the Sixth 5-Year Plan. Because of the discontinuation of air traffic at six airports, equipment was purposefully transferred [to other airports]. This reduced the need for import of foreign-made equipment and paved the way for effective use of modern Czechoslovak-made products or equipment manufactured in other CEMA countries. The CSSR Air Traffic Control [RLP] organization started with the development and manufacture of some special equipment. It is encouraging that foreign customers, aviation experts from CEMA and other states showed interest in its products. This, however, is a plan for the future, so let us return to the present. In order to provide the best possible service to domestic and foreign operators, the international airports in Prague and Bratislava were recently modernized. At the Prague-Ruzyně Airport, for example, the reconstructed takeoff and landing strip 13/31 was put into operation at the beginning of December 1981, and immediately work began on the reconstruction (including extension) of runway 07/25 which is to be completed by the end of 1983. Likewise in 1981, a start was made on the reconstruction of takeoff and landing strip 13/31 of the Ivanka Airport at Bratislava which is to be completed in October 1984. Thus, in a short time both Czechoslovak international airports will be able to handle air traffic under the conditions of the Second ICAO [International

Civil Aviation Organization] category, which will undoubtedly contribute to the greater regularity of flights and further increase the safety of air traffic.

The effort to provide quality services to Czechoslovak and foreign air carriers also motivated subsequent decisions: to start with the construction of facilities for handling the passenger traffic and the annex (for domestic passengers) at the Prague airport. On the basis of CSSR Government Resolution No 29, the work on these projects will start during the current 5-year plan. This step will make it possible to expand in the near future the existing capacity of the building with checkin facilities at Ruzyně as well as to adapt to the needs resulting from increasing traffic volume.

The basic task connected with the development of technology and the technical basis is to continue to maintain the highest quality, criteria of safety and regularity of air traffic in the future. This makes it imperative to continue the modernization of safety equipment, introduction of automated systems of air traffic control and gradual elimination of disproportions between the ground base and aircraft. In replacing and supplementing air safety equipment, we will see to it that it conforms to the existing facilities and traffic needs. The higher degree of integration of control systems in the CSSR will gradually be reflected. The improvement in automated air traffic control will be achieved through the introduction of an automated radar system for flights bypassing the airport, automated air traffic control systems in the terminal areas, automatic landing and control of movements in the entire airport area. The systems of integration and air traffic flow covering several areas of CEMA states will gradually be put into effect.

The tasks of the Seventh 5-Year Plan and of the next period also put bigger demands on the political and professional training of air personnel. In accordance with the principle of rational management of professionally qualified personnel, we, therefore, saw to it--after the scope of domestic air traffic was reduced--that pilots were temporarily employed on a priority basis in agricultural operations or other sectors within the foreign contracts. Their background and experience is thus put to use. In addition, we create conditions for their potential return to CSA operations, if and when the air service is expanded. At the same time, contracts have been signed according to which pilots of Czechoslovak civilian aviation will supplement the flying personnel of the national defense sector. According to the long-term plan, the task of supplementing the number of pilots for air operations in agriculture is being assumed by the Air Faculty of the Advanced School of Transportation and Communications and Svazarm. The guarantee of good training of workers for this key job of Czechoslovak civil aviation are also other schools and institutions: a training center of civil aviation under Slovair management (at Holesov); a new center for training and education of air traffic controllers and technicians administered by CSSR RLP (in Prague); a training center in the USSR (Ulyanovsk), and finally also the already mentioned Advanced School of Transportation and Communications in Zilina.

The principles of rational management of professionally qualified personnel were also observed in the use of workers released from the CSA repair shops

(after the termination of operation of airplanes of the L-410 type and restriction of operation of airplanes of the JAK-40 type). The substitute production program, including the filling of foreign orders from the USSR and GDR, makes it possible to fully use these experts and gradually to supplement the labor force in the repair shops. In this area, CSA trains its own apprentices.

The training of workers for representation abroad also is being gradually improved. New ministerial guidelines for selection, training, sending out and evaluation of personnel for foreign posts unequivocally limit the selection and qualification of CSA workers for positions abroad. Their systematic training is carried out by CSA in cooperation with the Central Transportation Institute.

In conclusion, in approving the demanding plan of CSSR economic and social development for 1983, the Seventh Plenum of the CPCZ Central Committee reiterated the requirement for more consistent implementation of high productivity and quality of labor and overall economy. This requirement is the logical feature of transition to the intensive development of our national economy which is dictated by the domestic conditions of a healthy dynamic development of our entire society. A contribution to achieving these tasks must also be made by the Czechoslovak transportation system and thus also by the civil aviation which constitutes an integral part of it.

10501

CSO: 2400/408

CZECHOSLOVAKIA

STROUGAL ADDRESSES MEETING ON ECONOMY

AU071000 Prague RUDE PRAVO in Czech 2 Sep 83 pp 3-5

["Substantial Excerpts" from the speech by CSSR Premier Lubomir Strougal at "Statewide Aktiv on Ensuring the [Implementation of] Conclusions of the CPCZ Central Committee Presidium and the CSSR Government on the Current State of the National Economy, the Fulfillment of the Tasks of the Seventh 5-Year Plan, and on Ensuring the Plan for 1983," held in Prague on 31 August; for additional reportage on this topic see the Czechoslovakia section of the 14 September 1983 Eastern Europe DAILY REPORT pages D1-D6]

[Text] The CPCZ Central Committee Presidium and the CSSR Government dealt critically and thoroughly with the fulfillment of the plan in the first half of 1983. They assessed the results achieved and voiced appreciation for the positive trends and for the endeavor of most economic production units, enterprises, and organizations, with the active participation of the working people, to achieve a higher economic growth than envisaged by the planned economic indicators in the sphere of national economy. At the same time, they expressed their dissatisfaction with the fact that some enterprises and economic production units are not fulfilling their tasks and obligations, thereby threatening the joint efforts and the overall results of the national economy. The measures adopted by the Presidium of the party Central Committee, the federal and national governments are aimed at achieving favorable results. However, they require that specific, effective measures be thoroughly developed--from the ministries, down through the economic production units to internal enterprise subdivision--measures aimed at reducing to the minimum the negative deviations from the planned intentions and at ensuring the fulfillment of all, especially qualitative tasks, throughout the management chain.

According to the concept, intentions, and goals of economic policy of the 16th Party Congress and the conclusions of the Seventh CPCZ Central Committee Session, overall positive results for this year are of extraordinary importance.

Just as the results for the entire first half of the Seventh 5-Year Plan, achieved under substantially more difficult conditions [than expected], the results for this year have confirmed that our economy has a great untapped potential and, hence, sufficient capability to deal with the present highly important national economic development targets.

In the economic policy of the first 2 years [of the Seventh 5-Year Plan], we reacted to the changed situation in the world and in our country. The basic goal that we set for ourselves was the necessity to reduce the time needed for a fundamental adaptation of the economy to new conditions so that, beginning with 1983, we could start the process of accelerating the economic development. We regarded the task of giving priority to economic balance over dynamism as realistic and effective. Basically, we have been successful in ensuring this intention. However, we must consider that it has not been, and is not, an easy requirement. It has been necessary to make a one-time resolve on a number of national economic tasks, which--given the reduced energy and raw-material inputs, the general slowdown of economic development and trade turnover in the world, and the economic stagnation in advanced capitalist states--have been without precedent.

Above all, it has been necessary to overcome volume reductions of clean fuel sources and to come to terms with the consequences of a poor harvest in agriculture, as the planned plant production was not achieved in either of the first 2 years of the current 5-year plan. In connection with the crisis-ridden developments in nonsocialist countries, we have had problems selling products of our manufacturing industry which still persist. In the process, we have also had to face discriminatory practices in the trade, financial, and credit spheres.

The economic and social developments in the first 3 years of the Seventh 5-Year Plan have been secured at a time when we are reducing our hard currency debts. We have had to make up for the differences arising from the deterioration in exchange relations regarding import and export prices while safeguarding the achieved living standards and social security. It is true that, as a consequence of this only possible economic policy concept, we have had to reduce sources for internal use, especially for investments. However, we know that we have great reserves in utilizing our capital assets and that our economic development has been excessive in terms of capital investment and inventory growth and thus limiting the resources needed for final consumption.

A Turnabout in the Intensification of Economic Development Is Taking Place

In light of these difficult and demanding conditions, we evaluate the total economic and social development as being positive, despite certain persisting problems and difficulties. We are now concentrating our efforts on solving and overcoming them. This is one of the important untapped resources of our economy.

On the basis of the economic results in the first half of the current 5-year plan, we can conclude that the called-for turnabout in the intensification of economic developments is taking place and that material inputs are being utilized more efficiently. In a number of economic areas, the economic balance is being renewed and strengthened. Especially, the plan to renew external economic relations is being consistently realized.

Above all, even with the lower dynamism of the growth in our sources, smooth economic development has been ensured. The needs of the economy and of the society and its citizens have been met, on the whole, without serious breakdowns and shortcomings. The planned tasks of industrial production have been

exceeded every year. Structural changes are directed toward raising the share of the processing or a stagnation, or even decline, in energy and raw material-intensive industries. A notable increase has been achieved, primarily in the electronics industry. In 3 years, its production has increased 22 percent while general engineering had a 13-percent increase. On the other hand, the fuel and power sector is growing by only 1.5 percent and metallurgy by as little as 1 percent. In agriculture, the trend toward overcoming the disproportion between plant and animal production is being achieved only with difficulty. Also, for climatic reasons, there have been delays in meeting the goals set in this sphere. A positive phenomenon is the reduction in transport-intensive-ness of our national economy.

The tasks in export marketing of industrial production to socialist countries, supplying the domestic market, and in deliveries for capital investment projects are basically being fulfilled according to the plan. Both the number of new investment projects and outstanding balances in the budgeted costs for unfinished projects have been reduced; in the first half of the Seventh 5-Year Plan by Kcs43 billion, that is, by 24 percent.

The improved performance of our economy this year, compared with the first year of this 5-year plan, will be reflected in a social product increase of about 2.5 percent, with a relatively slower growth in consumption by production. This bears out that there will be a positive development in the formation of source expansion and, hence, in national income formation. This makes it possible for us to achieve a certain improvement in the living standards of the people.

However, we realize that a contribution to the increase in sources has been made not only by growth in the productivity of labor but that an approximately equal contribution has been made by a small increase in employment. Nor can we overlook the fact that as the deterioration in the efficiency of the production assets continues it has an adverse effect on the results achieved.

In the interest of eliminating deviations from the plan and from the targets of economic policy, we must ensure, in our managerial and organizational activity, a harmony between the structure of production and its planned utilization wherever a part of production winds up as excess inventories or moves into investments where we fail to shorten the construction deadlines and complete and make operational all planned actions, and where production and trade inadequately adjust to the requirements of the domestic and foreign markets. So far, we have failed to achieve an improvement in the economic effectiveness of foreign trade. A number of problems and shortcomings in supplier-consumer relations have come into being and persist primarily for subjective reasons. The relationship between the growth of labor productivity and the wage developments is not according to plan and the research and development and mass innovation are not yet participating fully in the positive results of economic development.

We expect the management of economic production units, enterprises, cooperatives, and national committees to create condition for continued improved development of the first 2 years of the Seventh 5-Year Plan and the months of this year to be in the remaining part of the year and we expect them to realistically ensure this development. We expect that negative deviations from the plan will be kept to a minimum.

Under these conditions, the tasks of the Seventh 5-Year Plan set for its first 3 years will not only be fulfilled but overfulfilled in most sectors and indicators. However, there will probably be some deviations from the intentions of the Seventh 5-Year Plan, especially in exports to nonsocialist countries, which, instead of a 7-percent growth a year, have so far been essentially stagnating. The fact that the volume of investments and the total level of unwanted inventories will be exceeded constitutes another shortcoming.

The results of the first half of the Seventh 5-Year Plan suggest an improving trend. However, we must not even for a moment forget that the success of the entire 5-year plan will be determined in the remaining months of this year and in the subsequent 2 years.

To Accelerate the Present Speed

As regards the tasks facing us in the remaining months of this year, the CPCZ Central Committee Presidium has adopted specific conclusions, the basic requirement of which is to maintain the present rate of faster economic development. What matters is that in the second half of 1983, we should also ensure that the achieved edge in fulfilling the planned volume of production and the planned adjusted output be maintained while continuing trend in production utilization that we set for ourselves.

This task is based on the results achieved to date and the reserves, which we have, in making better use of the resources and potentials of the economy in expanding, intensifying, and raising efficiency. It is quite a realistic plan and, in light of its importance for the remaining years of the 5-year plan and, hence, for the fulfillment of the directives of the 16th Congress, we consider it natural that you will do everything necessary for its unconditional fulfillment.

I have already said in the introduction that the national economic priorities in the second part of the Seventh 5-Year Plan remains unchanged. This applies with particular urgency to the need to further intensify our participation in the international division of labor; specifically, in the socialist economic integration, specialization, and sharing in production within the CEMA framework, and also, in connection with this, the inevitability of raising the national economy's export capacity, to achieve high effectiveness of exports, and reduce our hard currency debt.

In the course of the Seventh 5-Year Plan we have undoubtedly made headway in implementing this task. However, we must be frank in saying that the dynamism of our involvement in the international division of labor is not sufficient.

It is precisely in changing this trend, in a more rapid integration of our economy in the international division of labor, that we see one of the important reserves of our entire economy's higher effectiveness.

One of the basic tasks of the Seventh 5-Year Plan is to strengthen systematically the export capacity of production and to ensure that the growth rate of exports exceed that of imports. The Seventh 5-Year Plan foresees a 43-percent growth in exports and a 19-percent growth in imports by 1985 as compared to 1980. The tasks in exports to nonsocialist countries are particularly demanding.

Machine exports are to increase 78 percent, exports of the wood-processing industry 67 percent, and exports of the consumer goods by almost 30 percent (in wholesale prices).

The development in the first 2.5 years [of the 5-year plan] shows that the conditions for fulfilling the export tasks as regards the socialist countries exist. However, we were not successful in meeting the planned exports to nonsocialist countries, and, therefore, we are not fulfilling the planned Czechoslovak imports either.

Compared to the Sixth 5-Year Plan, we have maintained the dynamism of the mutual exchange of goods with the socialist countries (in current prices, the average annual rate of Czechoslovak exports between 1976 and 1980 was 10.7 percent and of imports 9.9 percent; in 1981 and 1982, the average rate of exports was 11.1 percent and of imports 11.6 percent).

In the first half of this year, we exported 51.2 percent of goods planned for this year or 11 percent more than in the same period in 1982. The volume of imports, although it was less than 50 percent of the annual plan, was 14 percent higher than in 1982. While making a positive assessment of the results achieved in foreign trade with the socialist countries, we must at the same time note that these results have not come about automatically, that hard work by the production sector and foreign trade stands behind them. Compared with the seventies, a great deal has changed on these markets. The demands on the quality of products, their technical development level, and reliable deliveries are growing on the markets of the socialist countries. Because of external conditions, a number of countries have limited their investments. The demand for machinery and equipment in particular has undergone changes.

It can generally be said that price negotiations are becoming more complicated and require additional cooperation between industrial production and foreign trade as well as a better preparation of background materials. That which applied and sufficed once certainly will not do today.

Our basic strategy lies in the expansion of mutual trade and of economic and R & D cooperation with the USSR. We can state that our cooperation and our trade exchange are developing successfully. This year the annual turnover will amount for the first time in history, to more than R10 billion. In the first 2 years, our export to the USSR increased by more than 30 percent, and in the first half year of 1983 by 12.4 percent. The USSR's significance in our foreign trade has further consolidated, as the turnover came to more than 42 percent of the total goods exchange with the socialist and nonsocialist states in 1982.

Economic and trade relations with the Soviet Union are of vital importance to us. From the viewpoint of shaping the best possible structure of national economy, as well as from the viewpoint of ensuring the critical needs for our economic development are met, that means, raw materials, but also machinery, equipment, and technology. The significance of this relationship will naturally continue to increase in the future.

The 16th Congress also placed considerable emphasis on the growth of our export efficacy with respect to nonsocialist countries; where as I have already mentioned, the external, political, economic, ideological, and military

conditions have significantly worsened, compared to the seventies. The demand for increased export ability stands out also because without it, it is impossible to resolve the renewal of the hard currency trade equilibrium. However, so far we are succeeding in achieving this active method of solution.

During the first half year of 1983 we achieved 47.4 percent of the annual plan of exports, with a 100.2 index (as against the planned 102.1 compared to 1982). The fulfillment of export tasks continues to be rather irregular. The exports tasks are being fulfilled in the sphere of chemical industry, metallurgy, fuel, and power industry, and in the export of turn-key plants where we register 50-70 percent of the annual tasks. But these are mostly on raw material import intensive, even though the world is manifesting increasing interest in their purchase.

On the other hand there are sectors where the export to nonsocialist countries is not being fulfilled. This is primarily the case in machine tools, electronics and light industries.

The CPCZ Central Committee Presidium and the federal government have discussed this issue and charged the Federal Ministry of Foreign Trade and the production sectors with the task of mobilizing exports, searching for new commodities that are in demand, and searching for operational possibilities for effecting exchanging export goods.

We must be more strict in enforcing the linkage in foreign currency resources, created by exports, and the import needs; we will also follow-up more closely on the use of imports, which should be used for efficient production with ensured sales. It is necessary to emphasize the significance of return on imports, purposefully expand the foreign-currency return credits, and so forth.

One of the most significant factors influencing the overall fulfillment of the intentions of the party's economic policy in the Seventh 5-Year Plan is the return to external economic equilibrium and reduction of hard currency debts.

As regards nonsocialist countries, due to the radical changes of international conditions (the crisis of the capitalist economy and discrimination measures against the socialist countries, including in the area of credits) it became necessary to accelerate, in the first 2 years of the 5-year plan, the rate of foreign debts far more than was envisaged by the Seventh 5-Year Plan.

Even under these complicated conditions, we have succeeded in accomplishing the planned reduction of the foreign debts, achieved inevitable changes in the structure of the foreign currency position and, what is even more important, in improving the liquidity position of the Czechoslovak banks and to fulfill our foreign currency obligations as required and on-time.

We proceed from the fact that the discriminatory policy of the Western countries is not a short-term, but a long-term affair, and that it follows certain strategic goals as regards the entire CEMA community. Although indications of limitations of this discrimination have been registered in the first half year of 1983, the goals have not changed--only the forms have.

Of course, we can also note instances of realistic attitudes on the part of certain banks; we are making, and will make use of this for a mutually advantageous cooperation.

In concluding on the subject of these complicated problems, I want to state that we must not deviate from the line taken by the 16th CPCZ Congress on restoring the external equilibrium; it must be recognized in both the cost-accounting area and by the central agencies and actively implemented. It is impossible to always ask for more than we give in return. Mere demand for additional imports without a corresponding contribution in exports is, in our opinion, not an active approach; and we will neither accept, nor tolerate this.

The Achieved Living Standards Must Be Consolidated and Improved

On the basis of an analysis of the internal and external conditions of economic development, the party's 16th Congress formulated the program for maintaining and further improving the quality of the achieved living standards. We have always proceeded, and continue to proceed, on the assumption that we will live according to results of our work. We simply cannot avoid having to balance our possibilities and needs.

In the first 2 years of the 5-year plan, in view of the lower dynamics of the growth in our resources, our efforts were directed at preserving what we achieved in this area. This year we noted an improvement in the formation of resources; this will enable us to increase personal consumption expenditures by 1.4 percent. Last year personal consumption was Kcs233 billion; this year it is expected to reach more than Kcs236 billion. The possibility of achieving such increase has been tested during the course of the first half of the year.

The main source of the improvement of our living standards must be the growth in national income and labor productivity, and, consequently, the growth in personal earnings which depends on it.

The present development in the personal earnings diverges, to a certain extent, from our planned intentions. In 1981 these incomes amounted to Kcs366 billion, increasing by 2.6 percent in comparison with 1980; in 1982, when a number of price and compensation measures went into effect, they amounted to Kcs382 billion. During the first half of 1983, the personal earnings increased 3.9 percent.

In this connection it must be recalled that the cost of living has risen during these years.

A more rapid growth in the wage rates in the first half of 1983 was caused by the higher dynamics of production and outputs. At the same time we must bear in mind that, in connection with the adjustment of retail prices, certain political and social wage measures were taken since 1 April 1982 which changed the comparability base in the wage and income area. The rise of wages is further influenced by the incentives for energy and material conservation and for production of technically advanced and prime quality products, as well as for encouraging exports.

Against the planned assumptions, the real development of wages represents about an 18-percent acceleration, which means more than Kcs2 billion. Should this tendency continue, the wage increment would be Kcs4 billion higher this year than planned.

On this basis the average per capita wages in the socialist sector of our national economy (excluding the unified cooperative farms) were Kcs2,732 in the first half of 1983; this is a 2.3 percent increase, or a rate increase

by Kcs61; in industry the figure is 2.9 percent, or Kcs82. A significant growth of the average wages in the first half of the year was achieved in the state and cooperative sectors of agriculture; this is connected with the measures adopted for aiding the effective development of agricultural production.

In summing up, it can be said that we have not yet succeeded in creating the necessary economic pressure by means of the plan or of economic instruments; that is why the conditions for accruing wages are rather lax and enable deviations from the formation of social resources, specifically of national income.

Likewise, we cannot be satisfied with the way the accrued wages are being used for personal economic incentive. The positive element is that the incentive elements, bonuses and remunerations, are oriented toward the qualitative aspects of development, that is toward conservation, quality, and efficiency; that the specificity of bonus indicators has been defined more accurately and the procedures to be followed in case of their nonfulfillment have been tightened; and we are gaining the first, mostly positive experiences from the introduction of brigade forms of labor organization and remuneration.

However, as yet a turnaround has not been achieved in the effectiveness of remuneration; the merit principle is being implemented only very slowly. The overall sociopolitical climate is also changing only very slowly, as are the economic conditions that affect remuneration and, mainly, the standards of direct management, production flow and work organization. The base of technoeconomic norms is being improved and expanded only inconsistently.

The harmful mediocrity continues; generally, all employees share in wage increases, even though only some of them have contributed to improvement of the results. The social approach to wages has not been overcome--the achieved wage levels are considered permanent, even if the results worsen and the tasks are not accomplished. The actions of the majority of executives does not adhere to the principle that wages can be raised only for efficient employees and for manifestly increased contribution, quality improvement, and increased efficiency.

That is why the wage differentiation is not expanding but, on the contrary, remains very limited; this weakens work motivation and incentive. At the same time, the key to a more emphatic differentiation wage lies inside the organizations themselves, among the worker collectives and individuals. It is completely inexplicable that economic and budget organizations are not making use of one of the most important measures which help to manage the increase in average wages and their necessary differentiation through manpower savings. Currently the very opposite is true.

We must also seriously reflect to what extent do the shortcomings in our organizational and political indoctrination affect this situation.

In the interests of maintaining the ratio of economic development, we consider it imperative to restrict the conditions for wage accruals in order to ensure, that, both in the plan and in the economic instruments, a desirable relationship between the creation of national income and wages develops. That is why we must, in the next year's plan, intensify the dependence of wage norms on the

results of work and on its contribution to the society and also limit certain unjustified preferential provisions. However, we expressly wish to state that it is not a matter of creating administrative bars in remunerations in those instances where the performance, quality and efficiency will improve.

The objection could be raised that this is an infringement on the overall system. In certain sense such an objection is justified. But on the other hand, we must take into account that the norms of the relationship between wages and performance have been formulated at a time when we were only beginning to resolve many serious problems and were unable to assess their mutual inter-relationship both precisely and objectively. Let us understand, that the share of personal earnings in the created national income has increased by 4 points during the last 2 years. And this, comrades, is a tendency which no mature economy can tolerate.

In the sense of the conclusions adopted by the Eighth CPCZ Central Committee Session, it is necessary to devote extraordinary attention to strengthening interest in the tasks of our R & D. It is necessary to proceed from the fact that the workers in preproduction phases decisively influence not merely the technical solutions, but also the overall economic effectiveness of our production.

However, even here we must not proceed indiscriminately; the decisive things are the final results of technological solutions which are realized in practice. The measures adopted at the Eighth CPCZ Central Committee Session establish the necessary prerequisites for this.

Supply on the Domestic Market Is Becoming Stabilized

The permanently valid demand, which must be implemented far more consistently and jointly by the production and the trade, is the requirement relative to ensuring the needs of our domestic market, both with regard to quantity and, especially, the structure, range, and quality of commodities. True, due to this year's increased supply, the demand has become slightly stabilized. This applies particularly to the food market, where we succeeded already last year, thanks to the pricing measures, in reducing the high meat consumption and, toward the end of the year, in eliminating breakdowns in the supplies of substitute commodities, particularly fats, dairy products, sugar, and sugar products. This year the food supplies are further consolidating, due to the fulfillment of procurement tasks in animal products and increased deliveries of produce.

Of course, we have also registered here the positive influence of measures adopted for a better utilization of possibilities in the work of small breeders and cultivators, who ensured the complementary contract fattening of certain livestock, for raising the levels of self-sufficiency and selling a part of their surplus stocks to our procurement organizations or to the population.

We do not intend to take the path of a quantitative material growth in food consumption either in the near future, or later. The state plan, the plans of production and trade organizations, as well as the supplier-consumer negotiations should be aimed at further improving the quality of the products offered by making use of all accessible sources of domestic raw materials, at strengthening self-sufficiency in food production and at rational imports of food raw materials and produce.

Simultaneously we must set up and develop the production and deliveries of nutritious foodstuffs, particularly dairy products, fruit, vegetables, potatoes and potato products, while reducing the consumption of fats, sugar, and cereals. The restaurants, factory and school cafeterias must cooperate far more actively in providing the proper nourishment for the population, especially by raising the standards of the fare service and hygiene. It is desirable to make greater use of the central deliveries to catering centers, but also to industrial and other type enterprise services.

However, if we want to achieve a balanced supply and demand situation on our domestic market, the solution centers on industrial, or more precisely, nonfood commodities.

Only in this way can we halt and change the trend of increasing the share of sales of foodstuffs and food products. The experience gained during the first half-year shows that this favorable development is now taking place. Nevertheless, we cannot be satisfied with the achieved results.

We still have shortages of certain kinds of nonfood products. This has been known for quite some time and has not yet been resolved, for instance certain textile goods, footwear, furniture, and personal hygiene products are not always available. In durables and electronic goods, for instance, bicycles, refrigerators, small tools, color television sets, and batteries are in short supply. In some instances the solution partly depends on external relations, but market shortages often occur as a consequence of the insufficient ability of our production and trade to make correct future estimates.

Last week, the CPCZ Central Committee Presidium again emphasized the measures by which it charged last year the production organizations and trade with the task of increasing the deliveries of shortage products in the individual years of the Seventh 5-Year Plan. So far the production sectors are succeeding in fulfilling this only in roughly two-thirds of the items demanded by the trade.

Another task involves the ensurance of production development, and the increase of deliveries, of modern and innovative consumer goods. This task, too, is being accomplished only slowly; and individual production sectors have not yet even completed the production program for these goods for the Seventh 5-Year Plan. So far the volume of the deliveries of these goods has been low; only 1 percent of the annual retail turnover. When, at the beginning of this year, selected shops began selling glass, porcelain, lighting fixtures, and rugs, this met with great consumer interest. The consumer has shown that he is willing to pay a relatively higher retail price for high technology, advanced quality goods. But the demand is still not being satisfied and we will need far more of such products.

Supplementary production of consumer goods in organizations that have not been producing them and this is about 1 percent of their production volume, is still in the preparatory stages and has not yet been practically reflected in this year's domestic market. The current contracts for this year's deliveries of goods produced in this manner for the domestic market amount to a mere Kcs133.6 million in retail prices for the machine and electronic engineering sectors; the figure for 1984 is only Kcs200 million.

A more rapid growth of industrial goods sales requires a substantially closer cooperation between trade and production in ensuring deliveries by the distribution system; a higher percentage of high-quality goods; an improved product mix; and a more flexible response to changes in demand on the domestic market.

A More Intensive Development of Services for the Population

Paid services provided for the public mainly by the local economy organizations and by production cooperatives, are also significant in satisfying the people's needs.

After the Sixth CPCZ Central Committee Session, the activity of central agencies and national committees became considerably more active. Basic legislation and economic conditions were established and the system of management by means of the plan and budget was simplified. New indicators and economic tools are enhancing the interest of local economy and production cooperatives in developing public fee services. They provide incentives for the operating facilities and repairmen toward repairing rather than exchanging at any cost, and frequently unnecessarily worn out or damaged parts. New and more effective remuneration methods are being used [more frequently]. Likewise, financial instruments, for instance income tax deductions and linkages to repair and modernization, are showing greater effect. All this is significant for the direct management of service enterprises by national committees, which are now also able to coordinate and control the activities of centrally managed economic and other organizations in providing services for the population.

The plan fulfillment in the local economy and in production cooperatives in the first half-year 1983 was favorable. But the differences shown by individual kraj and okres in this respect are considerable. This proves that the significance of measures adopted by the Sixth CPCZ Central Committee Session has not yet been fully appreciated in all places.

In the past period, hundreds of service facilities have been set up or expanded in all kraj. Production cooperatives are developing services primarily in central villages. We consider it important that services should be closer to the consumer, such as by gradual abandoning of inappropriate centralization of service in the okres and larger cities.

Night-time and weekend emergency services, for instance auto repair and towing facilities, are being expanded. Cooperatives and local farms, as well as communal services are providing hairdressing, cosmetics, camera shops, dress-making and other mobile facilities.

Even though much has already improved, we cannot be completely satisfied. This is also indicated by the numerous complaints and suggestions coming from the citizens, above all with regard to services in general, and housing management in particular.

Some results have also been achieved in a better utilization of auxiliary services, such as small national committee operations in granting permits to [private] citizens for providing services, and so forth. The number of communities with small service facilities has increased in the Czech Socialist Republic (CSR) by 43, compared with 1982, and receipts have increased by 17 percent. In the same period the number of such communities in the Slovak Socialist Republic (SSR) increased by 36, so that now already 935 communities have small service facilities managed by national committees.

Likewise, the services provided by citizens on the basis of a national committee permits are becoming a significant component, particularly in the sphere of small services. By the end of the first half of 1983, 1,712 persons were providing services in CSSR on the basis of a individual effort and 945 service facilities have been rented for private use.

Certain conditions were also established for improving the distribution system to service organizations, particularly through interdepartmental agreements between the ministries of interior, production cooperatives, the ministries of industry, and the federal ministries of general engineering and of the electric engineering industry. However, as yet not all production enterprises have actively started to implement the conclusions of the Sixth CPCZ Central Committee Session on the development of services. The increase of deliveries of materials and spare parts to service organizations is not being fully ensured. So how are they to carry out repairs or maintenance without materials and other requisites? We must speedily and fully resolve this state of affairs!

The paid services to be provided by organizations for their employees within the framework of self-help activities are not yet fully appreciated. This applies, for instance, to loans of working tools and facilities, or to the performance of service and maintenance work and so forth for a fee. This form of service is also justified, and must be expanded within the framework of possibilities and conditions in production and other organizations.

To a certain extent, inadequate profitability was hampering the expansion and rendering of certain services. That is why we decided on service price adjustments. The assurance of an adequate profitability by the newly set, price limits enables--above all, the national committees and cooperatives, including associated productions--to establish conditions for expanding and improving the services, as well as for exerting pressure on uncovering reserves and on reducing unproductive costs.

Again, I want to emphasize for the benefit of people working in production, trade, and the services that they must make an energetic effort to improve the quality of goods and services for the domestic market. The number of justified complaints continues excessively high. Manifestations of dishonesty, overcharging, favoritism, and enrichment are an everyday occurrence. We must be more consistent in applying sanctions and we must call the appropriate managers to accounting in cases involving serious irregularities.

Support for Priority Development of Plant Production

We have gone through 2 years with strikingly differing results in agricultural production. In 1981, the original plan of agricultural production was fulfilled only 95.1 percent, for various objective, but also subjective reasons; the figure for plant production was even lower with an 88-percent fulfillment. Even though 1982 was a relatively favorable year and the gross agricultural production plan was 102.1 fulfilled, the planned level of plant production was not achieved. During the first 2 years of the Seventh 5-Year Plan, the shortfall of cereals production was almost 2.4 million tons, compared with the plan; it was partly made up by unplanned imports of 900,000 tons of cereals which roughly cost us Kcs2 billion in hard currency. We also had to start regulating more strictly the production of pigs and poultry for slaughter.

The first half of the total Seventh 5-Year Plan animal production for market was fulfilled 50.9 percent for slaughter animals, 49.5 percent in poultry for slaughter; 49.7 percent in milk procurement; and 49.8 percent in eggs.

This year the dynamics of the growth of agricultural production is being restored, even if there are indications that the growth of animal production is again surpassing the growth of plant production.

Due to favorable weather conditions for the wintering of winter crops and the timely beginning of spring field work at the beginning of the vegetation period, we have achieved relatively good results. This was particularly reflected in the yields of the first harvest of perennial fodder crops on arable land and on permanent grass acreages. This was also reflected in the rape yields, where the planned production was overfulfilled by 17.1 percent which, compared with last year, represents more than 135,000 tons or 76 percent more.

We consider it most significant that the sowed acreage of perennial fodder crops on arable land was increased by 15.5 percent compared to 1982, and that the yields of the first harvest were 53 percent higher.

This year's harvesting of basic cereals will end roughly 1 week sooner than last year. We will have harvested about 10,200,000 tons, which is 170,000 tons more than envisaged by the plan. Compared with last year and with the average yields of the Sixth 5-Year Plan, the harvest will be 868,000 tons higher.

The average per-hectare yields of winter wheat and winter barley are estimated at 4.84 and 4.52 tons per ha respectively; the figure for spring barley is a mere 3.85 tons. This must induce us to analyze the causes of such differences and reflect on the structure of plant production in general, and of grain crops in particular.

A large question mark is still hanging over the expected yields of corn for grain; here we were expecting to produce 1 million tons, but obviously this will not be achieved.

The development of sugar beet crops gives indications of only an average harvest. Although the root weights coincide with a 10-year average, the current sugar content is somewhat higher. The main thing now is that the agricultural enterprises must do everything on time, for substantially reducing the harvesting

losses. Likewise, the sugar refineries must carry out organizational and technical measures for minimizing storage and technological losses. Our aim must be to approach as closely as possible to the fulfillment of planned sugar production.

According to the estimates up to 15 August, our potato production will not be as planned either. The ministries of food and agriculture, together with the ministries of trade, must now adopt measures for the most expedient handling of the harvest in order to avoid losses and to ensure regular deliveries for the domestic market.

These harvest shortfalls will particularly affect the fodder base of agricultural enterprises. That is also why not only the harvesting of this year's yields with the least possible losses, but also the establishment of the best possible conditions for the future harvest, are both of extraordinary significance in the present phase of work for further acceleration of the dynamics of our agricultural production.

A positive contribution is the favorable course of sowing the summer intermediary crops: 430,000 hectares of them have been sown, which is, 8,500 hectares more than last year. Another favorable contribution is the sowing of winter rape, which has been completed on roughly the same acreage as last year, and the course of winter plowing, where roughly one-third of the total task has already been completed.

Despite positive results in plant production, it has become clear that in certain spheres we will be entering the new economic year with a rather tight fodder situation. That is why it must be the primary task of the agricultural management to economize to their utmost capability. Another thing is that, according to the specific situation in fodder, timely, differentiated measures for ensuring regular and rational feeding with full use of volume fodder, above all, straw, and including nontraditional resources, must be included in the binding rules for handling of fodder.

In this connection we emphasize that the measures for handling fodder and energy are not in the least temporary, as a number of workers interpret them to date--they are of a permanent nature. The numbers of livestock, and above all, of pigs and poultry, must be regulated in keeping with the actual fodder resources and the tasks of the state plan.

The development of animal production, improved in the course of the second half of last year. Compared with the same period last year, all livestock herds in the agricultural enterprises of the socialist sector have grown, while poultry has gone down by 766,000 head as planned.

The utility of farm animals also increased. The average daily milk yield of 9.29 liters is practically 1 liter higher, than in the same period last year. This was also reflected in a higher total milk production--which increased by 322 million liters, compared to last year; while the consumption of grain fodder per liter of milk has remained the same as last year (0.24 kg). The standard consumption of grain fodder per 1 kg of weight increment and for producing 1 egg has slightly dropped, while yields have remained the same and utility has increased. For instance, the daily weight increase of pigs averaged 15 gr more than last year, while the standard consumption of grain fodder per 1 kg of weight increment is 30g lower.

In the first half of this year, 25,000 tons of slaughter animals and almost 200 million liters of milk were procured over and above the 50-percent figure of the annual plan. The overfulfillment of the milk procurement plan has made it possible to fully renew the deliveries of cream, full-fat milk, and cottage cheese for the domestic market.

In this connection we must mention the developing activities of small breeders and cultivators and their contribution to our self-sufficiency.

Whereas in 1979 a total of 1,400 tons of slaughter animals were procured from these breeders within the framework of contractual fattening, in 1982 the figure rose to 24,000 tons. Furthermore, last year we procured 1.4 million tons of fruit, 136,000 tons of vegetables, 7.7 tons of honey, and 2,300 tons of wool. This year this development is accelerating.

According to rough estimates, small breeders and cultivators have to date produced 116,000 tons of slaughter pigs, 20,000 tons of poultry, almost 50,000 tons of rabbits, 2,300 tons of honey, 247,000 tons of fruit, and more than 300,000 tons of vegetables for their private consumption. These data show with absolute clarity the benefits produced by the small breeders and cultivators, as well as the significant economic effect of their efforts. We are interested in a further development of these activities, naturally on the condition that all appropriate restrictions are adhered to.

Based on substantiated assumptions, we appreciate that the influence of the measures adopted for improving the system of the planned management in agriculture after 1982 is beginning to show positive results in agricultural production.

The acquired experience shows that the established principles and rules are correct and point to intensifying agricultural production.

Despite the generally positive tendencies, which are also influenced by other factors, the goals set for the system are not being fully achieved. Certain shortcomings and problems continue to exist during its implementation, and it is necessary for the management responsible to pay closer attention to their resolution.

It is particularly necessary to improve the qualitative standards of planning, above all in intersectoral relations, and to eliminate the persisting administrative approach to the development and support of planned tasks, to implement consistently the intentions of the distribution system relations, fully resolve the position and the function of the services, and to increase their responsibility within the framework of the agro-industrial complex.

We believe that the results of the functioning of our improved system of planned management in agriculture would be far more positive not only if all remuneration measures were being comprehensively implemented, but also if personal economic incentives were better linked through the intraenterprise cost accounting [khozraschit] system. A lot remains to be desired in terms of implementation of this management principle in the socialist enterprises. Many places still lack a more objective breakdown of the plan for enterprise subdivisions supported by

a system of techno-economic standards. The plan is not passed down to these subdivisions comprehensively, but mostly only in terms of material indicators and that is also why the employee economic incentives, particularly for workers, are tied to conservation only to a limited extent. The result of this state of affairs is the insufficient differentiation of wages received by individuals and collectives.

It is understood that central management bears its share in these shortcomings.

Our agriculture management agencies must devote specific attention to intensification of the agricultural production in remote areas and areas with more difficult living conditions, and also make more effective use of the labor stabilization fund for resolving the issue of cadre stabilization.

The food processing industry has also achieved positive results in the first half of this year. We have succeeded in stabilizing the supply situation by delivering foodstuffs in quantities which essentially, satisfied the demand, despite the existence of certain problems in the product mix.

In connection with higher procurement, particularly of animal produce, the planned production output was exceeded by 3.9 percent. All economic production units [VHJ] have coped with the planned tasks.

Despite the relatively good results in the food processing industry, we must concentrate far more emphatically on producing a range of products that will satisfy consumer demand, and devote more attention to quality and product innovation and its orientation to consumer needs.

Testing the Set of Measures in Practice

The evaluation of the results during the 2 and one half years of the Seventh 5-Year Plan, and in the course of this year in particular, clearly shows the positive effects of the Set of Measures for Improving Planned Management. This fact was stated by the party's Central Committee Presidium and the federal government in connection with the discussions and detailed assessment of the fulfillment of the planned tasks for this year. I also want to inform you that the Central Committee Presidium thoroughly and independently assessed the issues of the effectiveness of the economic mechanism and management in general, the issues of the overall operation of the Set of Measures, and the experiences acquired in the course of implementation. An inseparable part of this discussion and its practical outcome is the program for further improving the system of management, and the mechanism, methods, and style of all management activities.

You know very well that we have been striving for a long time to resolve these issues. This is neither a coincidence, nor a passing fad. The requirement for improvements in management follows from the internal processes in the phase of building a developed socialist society. In the narrow sense, this requirement follows from the needs dictated by the necessity of putting our economy on the path of intensive development and on the other it follows from the regard for the objectively functioning legitimacy contained in the constantly growing role of the subjective factor.

The effort to achieve substantially higher productivity forms the backbone and main pillar of our party's strategic line, the line of its past congresses, the line of an all-round intensification and high quality of all work. It is obvious that we must constantly be creating conditions for pressing for and implementing those changes in production labor that will make it possible to achieve new and substantially higher standards of labor productivity. This requires among other things improvements in planned management.

The issue of improving management is not, as you know, an exclusively Czechoslovak affair. All countries of the socialist community are searching for and testing ways and means that would help us to resolve, more efficiently than heretofore, the complicated, multifaceted, and continually ramifying the problems of the reproduction process. Every socialist country is conducting this search "in its own way" as it were, proceeding from an analysis of its realities. But however explicit the specific methods for resolving the issues of planned management and improving the economic mechanism, there are principles and approaches which apply equally to everybody. This cannot be otherwise, because we are in fact socialist countries, countries that have the same ultimate goal, scientific world outlook, and--in certain respects--essentially the same topical economic problems.

These principles derive from the very nature of socialist economy, which is based on such things as social ownership of the means of production, centralized planning, and the planned utilization of the money-market relations. It is precisely for this reason that we must carefully study and utilize the experiences acquired by the fraternal countries. Now we can acquaint ourselves in detail not only with the general range of this experience, but also with the possibilities for taking advantage [of these experiences].

This applies in particular to the latest measures of the CPSU Central Committee and the USSR Council of Ministers. I have particularly in mind the resolution on expanding the authority of industrial production associations both in planning and in management as well as the law on the rights and duties of work collectives. As regards this law, it seems that we must reflect more deeply upon its significance and impact, and upon the possibilities of specifically utilizing it under our conditions. We will have to gather experience in implementing it, analyze this experience, and generalize and utilize it in the not-too-distant, appropriate future period.

The suggestions following from the latest sessions of the CEMA and its Executive Committee, particularly those concerning the improvement of management are not insignificant either.

These viewpoints, too, were among those taken into account by the party's Central Committee Presidium when it was assessing the present course of implementation of the Set of Measures and its effect on our economic activities, as well as formulating the new tasks in improving the management.

What are the conclusions following from the recent experiences?

Above all, the principles and precepts of the Set of Measures have been proved both correct and necessary. We proceed from this fact and base on it our work for further improving the management system. We base this conclusion mainly on the fact that the entire planning process has improved and become more realistic, and that the plan and the economic instruments are exerting more effective pressure on efficiency and quality, and on the final national economic results.

Through these tasks, norms, and plan limits we have succeeded in adhering to our goals of reducing the consumption of fuel and energy and raw materials, as well as to our plans for improving the balance of payments in relations with nonsocialist states.

Despite the extremely difficult conditions, we have taken the first step toward strengthening the role of the 5-year plan, and thus also toward raising the long-term responsibility of organizations for fulfilling the plan's goals.

The Set of Measures has contributed toward resolving the problems that arose in our economy as a result of our limited material and energy resources. During the last 2 years, the material costs developed more favorably than the annual average achieved in the Sixth 5-Year Plan; there was a relative drop of 1.1 percent in 1981, and 1.4 percent in 1982. We are registering the same trend in the present half-year. This means that, compared with the Sixth 5-Year Plan, material costs are declining twice as rapidly.

The Set of Measures also leads to achieving progress and strengthening of the *khozraschet* principles of management, especially since it forges closer links between the financial sources, especially between profit and satisfying the needs of the economic production units and enterprises.

The share of the organizations' own financial resources for covering their needs, particularly investments, has increased. Last year the share of the organizations' own resources in the financing of investments increased from 45.7 percent to 55.5 percent, compared with the 1980 figure; the share of state subsidies dropped from 19.6 to 11.6 percent. These tendencies have also continued in the first half of 1983, when the share of the organizations' self-financing was used for up to 62 percent of investments made.

The newly established development fund, which is aimed particularly at modernization, reconstruction and replacement also played its role.

Another, no less important, contribution of the Set of Measures is that certain changes are now becoming manifest in people's way of thinking and acting which, more than before, are becoming oriented toward the issues of efficiency and quality. This finding is all the more significant since it represents a certain kind of capital for the future.

Another positive thing is that the Set of Measures shows up the shortcomings occurring in the management activities of economic production units, enterprises, and enterprise subdivisions; but not only these, it also pin-points problem areas in ministries and top planning agencies--and more distinctly than in the past.

Of course, in the interests of objectivity it must be said that, together with the positive, the party's Central Committee Presidium also pointed out those areas of the Set of Measures operations which are not asserting themselves in practice and which are not being enforced to the extent they were intended to be. Simply, the Set of Measures is not yet as fully and comprehensively effective in all sectors and phases of the reproduction process.

We see the reasons for this in the fact that not all managers have succeeded in mastering the principles of the Set of Measures and applying them in practice. This requires a quick readjustment. The party leadership and the government cannot provide any more time for a full grasp of the requirements and for a really effective role of the management. We do not demand the impossible. We want that agreement with the party policy to be accompanied by deeds which will yield the necessary results.

In the spirit of conclusions adopted by the party's Central Committee Presidium, it is therefore imperative for the present:

To continue improving the quality of the plans and the planning process and to do this in the spirit of conclusions adopted by the 16th CPCZ Congress.

To Interlink the Material and Value Criteria of the Plans

We particularly have in mind the need to link more intensively the material and value criteria in the plan development and a balancing of resources and needs.

We cannot become reconciled to the fact that the distribution of material and investment resources continues to be carried out more or less from the viewpoint of material proportions, while such value instruments as prices, finances, and credits are, to a considerable extent, adjusted only passively. As a result, they are not being utilized effectively enough to exert pressure for a cost-effective utilization of resources. Everything indicated that the plan tasks, limits, and norms are not yet exerting sufficient pressure for increase in general profitability and productivity of labor, and thus for shaping more just and stricter conditions for the organizations' financial resource formation.

In connection with this concept of planning, we must mention one of the important valuation aspects--wholesale prices.

In the course of the Seventh 5-Year Plan, in the years 1981 and 1982, we adjusted the wholesale prices for fuel-energy sources and some raw materials. Another adjustment, within the framework of the regular updating of wholesale prices, is being prepared for 1 January 1984 when they will be raised by 6.4 percent and final production by 4.1 percent.

This adjustment comprises an increase in the wholesale prices of fuel-energy sources and some raw materials for the food industry; an increase that is pegged to the adjustment in procurement prices. On the other hand, the prices of some imported raw materials and selected consumer durables are being reduced.

For 1985, we foresee an increase of 0.6 percent in wholesale prices of the food, textile, leatherworking, and paper industries.

In keeping with the conclusions of the last CPCZ Central Committee session, we are also preparing wholesale price measures that should provide for stronger encouragement of technical development and its efficacy. Just as it is necessary to apply consistently more demanding criteria in price-setting, it is equally essential that prices, together with other instruments of planned management, help solve the difficulties faced by producers in introducing new, high technology products. This concerns mainly the higher costs in the initial stages of production, before the problem is fully mastered.

That is why we have taken steps toward the system of gradually falling prices, prices that keep declining year after year, in accordance with the planned development of production costs [stet]. Aside from this, we are applying the system of dual pricing, a system where, temporarily, the higher price applies to the producer and the lower price to the consumer.

A great deal must also be changed in the process of detailing the state plan in the specific conditions of the organizations. A number of sectors and economic production units still use the old methods of administrative, mechanical plan breakdown. The Set of Measures demands a quite different, a creative and differentiated approach.

One of the basic prerequisites of the effective functioning of the Set of Measures is that it be brought down to the individual workplaces and enterprise subdivisions. A number of economic production units and enterprises have not yet managed to cope with this task.

The situation in the khozraschet relations between economic production units [VHJ] and enterprises is strongly differentiated, not only on basis of the nature of the economic production unit concerned but also of the quality of its management. In many cases, the development of khozraschet is still being hampered by excessively detailed administrative work and by unjustified centralization and redistribution of resources within economic production units.

As regards enterprise subdivisions, the most consistent implementation of khozraschet has been in the departments involved in main production. It advances somewhat more slowly in supplementary production and in the service departments. And as far as research, development, and the technical preparations of production are concerned, khozraschet is in the embryonic stage. And, comrades, how can people's initiative possibly assert itself when they do not properly know their tasks, the relation of these tasks with the overall economic goals of their enterprise and, sometimes, not even the rules governing economic incentives. In fact, we are thereby depriving ourselves of that which is most precious--the interest and creative activity of our working people.

A certain progress has been made in expanding, improving, and updating the normative base without which khozraschet cannot work. However, the greatest part of this work still remains to be done. In 1982, only 31 percent of norms governing the consumption of materials, fuels, and energy were tightened, while 55 percent remained unchanged and 14 percent were diluted. This testifies to an inconsistent fulfillment of the set tasks.

Furthermore, we must mention to what extent and how does the Set of Measures exert influence on solving such sore spots of the economic activity of VNI and enterprises as are investments, the reduction of production's consumption, foreign trade activity, and inventory management.

We have already expressed appreciation for the fact that the Set of Measures has contributed to increasing the share of retained earnings in financing investment projects. We want to further strengthen this aspect of the economic production units' and enterprises' economy. That is why this year we have begun to test in some industrial branches the use of khozraschet principles in financing all investments by means of a uniform investment fund consisting of the economic production units' and enterprises' retained earnings plus a bank credit. We regard this solution as promising and want to further expand this experiment next year. However, this will require that we gradually change the investment planning, especially as far as their present categorization is concerned.

In the interest of accelerating construction, encouraging adherence to deadlines, reducing the number of unfinished projects, speeding up the completion of projects and the commissioning of capital assets, and in the interest of the required quality and compliance with the budgeted costs, as of 1 January 1984 we want to make the transition to the so-called facility invoicing, for which the necessary steps have already been taken.

In assessing the impact of the Set of Measures, we appreciate the fact that it contributes to reducing material costs in the enterprises. However, our analysis has shown that, so far, we have been tapping easily accessible reserves of a short-term nature. We are thus in danger that after exhausting these reserves, this positive trend might end. Yet what we need is that this trend not only continue over the long-term but that it accelerate and the overall production consumption [of material] per unit product decline.

Production Must Ensure Planned Product Utilization

Another area in which the Set of Measures must yield visible progress is the relation between produced merchandise and its utilization. We are not only interested in increasing production and value added regardless of the planned structure, but that the products be effectively utilized in final consumption.

And here is a weak spot in our economic activity. Shortcomings and lack of purpose in the marketing structure, poor quality products, the worsening production cyclicality in many sectors, and problems in capital investment--all these result in an intolerable accumulation of inventories.

The extent and speed at which the accumulated inventories are being reduced is far removed from the needs of our economy. Despite an acceleration in the inventory turnover by 1.8 days in the first half of this year, new inventories continue to accumulate. In the first half of this year, they increased by Kcs8.4 billion. Momentous are inventories in industry and construction where they increased by Kcs2.7 billion in 1982 and by Kcs2.6 billion this year.

In order to fulfill this year's task in reducing inventories in the second half of the year, we would have to reduce them by Kcs4.6 billion from the first half of 1983 in industrial production and construction alone. The total volume of inventories in the national economy has reached Kcs453.6 billion, which, just for illustration, is roughly equivalent to our [annual] net national income.

From this we can see how serious the problem is. To produce for the warehouse means, in its consequences, to drain the national income, to deplete the development and national income funds, and, ultimately, to slow down the development of private consumption.

Last year we adopted a number of measures aimed at improving the inventory management in this and the remaining years of the Seventh 5-Year Plan. We directed the economic agencies to improve the activities of marketing organizations, to apply the first-in-first-out [FIFO] inventory turnover methods, to improve standardization of inventory stock levels and to improve supplier-consumer relations.

The khozraschet sphere must consistently implement these measures. An important role is played by the federal bank, which has been authorized to charge differentiated interest rates--ranging from 3 to 10 percent--on all loans for inventories so as to bring their development in line with the planned targets and actual needs of the economy and the population.

It is necessary to anticipate that, in a comprehensive economic analysis for 1983, the overfulfillment of the planned inventory accumulation will have a markedly negative impact on the evaluation and the size of economic incentives.

The unsatisfactory inventory developments force us to consider changes in the current regulations financing and management of enterprises, as far as the timing of production is concerned.

Today an enterprise initiates production at the moment the products leave the warehouse. However, the actual sale of the product and its utilization is of no interest to the producer. We think that it is high time to consider a change in the present system, in which production would be considered completed only after payment for the product is transferred to the supplier's bank account.

We realize that this is a fundamental change which will significantly affect the system of credits, payments, contractual relations, invoicing, and accounting. In the event of breakdowns in marketing the products, it will have serious consequences for the organization management.

The Set of Measures has significantly enhanced not only the position and role but also the authority of economic production units. We wanted the economic production units to be equipped with management and economic tools sufficient for the fulfillment of their role. At the same time we stressed that an enterprise must have the necessary authority and responsibility concerning questions of fulfillment of its technical, social, and khozraschet functions and that, therefore, the system of management and the relations within economic production units must be able to offer differentiated solutions depending on given conditions.

A number of findings showing that this intent has not been correctly understood everywhere are available. There are cases of excessive, mechanical concentration of the management functions and routine work at the general management levels. This weakens the motivation of enterprises to achieve advanced economic results and, ultimately, weakens the influence of the merit principle.

It is apparent that it will be necessary, and this is one of the programmatic tasks laid down by the CPCZ Central Committee Presidium, to ponder more thoroughly the question of organizational structure in general, and the organizational and legal forms and relations of existing economic production units and enterprises in particular, and to prepare measures that will optimize these relations.

The program of further improving planned management, approved by CPCZ Central Committee Presidium a week ago, focuses not only on the period after 1985 but, as I have already mentioned, also contains some changes to management to be effected in the next 2 years.

The main thing is that, in the refining of the economic mechanism in general and the economic tools in particular, we should continue to shape a much more exacting economic environment for the economic production units and enterprises.

That is why we will continue along the path of limiting redistributions, subsidies, and credits, use of the taxation system in order to make costing and profitability reflected in prices more realistically, and we will maintain balanced federal budget by stressing conservation in expenditures.

We must, of course, fully resolve a task based on the Set of Measures, the task of establishing mobile reserves for leveling the swings in economic development or for promptly reacting to the research and development results.

We must also gradually create uniform evaluation criteria for everybody as well as develop equal criteria of efficiency. To put it simply, we will have to continue to tighten the general conditions for organizations' access to financial resources.

A no less important programmatic task to which we must pay considerable attention, is the improvement of planning and of the entire planning process at all levels of management. This must be done in two ways. We must, above all, fully resolve the question of the plan's stability. We do not want to and we cannot dilute this requirement. The stability of the plan must be perceived primarily as a stability of its goals, tasks of innovation activity, of the relationship between the resources entering the reproduction process and its results. It cannot be understood as the inflexibility of the individual partial indicators.

Second, we have to expand prospective planning and ensure, to the extent necessary, the meshing of long-term goals with the medium-term 5-year plan.

It is necessary to establish new qualitative conditions for the development of counterplanning and initiative of the working people, relying, above all, on economic criteria which reflect the interests of all society. We assume that this will require new forms of the working people's participation in management.

We Cannot Do Without Organization, Order and Discipline

So that everything we are doing and are determined to do to improve planned management must be based on such fundamental prerequisites, as good organization, order and discipline.

When talking about discipline, we cannot demand it of rank-and-file workers alone. Naturally, it is absolutely essential to ensure that people carry out their tasks at their place of work; to know what their capacity is and how well they manage their work. And, of course, we have to make sure that they have something to do and that they have the best possible conditions for productive work.

But exhortations for order and discipline will not be enough. A necessary prerequisite for improvement is to make the control of the implementation of planned tasks more accurate and thus stricter and to react more quickly and resolutely to all manifestations of wastefulness, loafing, negligence and violations of the norms and plans. This requirement applies to all areas of management and decision-making, to all sectors of work. I also think that the work teams themselves can and should play a greater role in this respect.

We are pondering these issues and looking for ways to improve. I would like to inform you in this connection that together with the Central Council of Trade Unions we are analyzing our labor code, taking into account the important resolutions about the role of work collectives and strengthening of work discipline recently adopted by the CPSU Central Committee, together with the Council of Ministers and the All-Union Central Council of Trade Unions.

However, the demand for greater discipline must be seen in all its aspects. Planning and technological discipline are part of it as is the observance of contractual commitments by one plant or enterprise vis-a-vis its partners. Our everyday practice documents how sensitive are the mutual relations of cooperation and interdependence, relations that are very complex in any modern advanced economy, to any failure to comply with the agreed procedures, to any violation of the planning discipline, to any arbitrary adjustment of tasks, regardless of the sector. Any one such case may lead to a chain reaction.

That is why the need for unconditional discipline and the strictest order must be understood as one of the important conditions of raising the effectiveness of the national economy. We naturally know that all kinds of difficulties and unforeseeable situations can, and do arise in the complex relations of the production process. This is where qualified, experienced, and flexible direct management must take effect and play its role.

However, aside from breakdowns that have objective causes for which no one is to blame, there are breakdowns, and these constitute the majority, that are borne out of subjective shortcomings: poor organization of labor, weak and

ineffective controls, inconsistency, complacency, and incompetent management. This is where no plan, no matter how good, can help. Incidentally, even the best economic mechanism will never be absolutely accurate and perfect, not even the best mechanism by itself can automatically deal with and solve problems. Hence, the only thing left to us is to ask how well the cadres have been selected, trained and deployed. These questions, and the answers to them, are becoming more and more urgent. We must take note of this and act accordingly.

There can be no doubt that our ability to set things into motion and to change them depends on the methods of management and the style of organizational and managerial work. This derives from the simple principle, that all organizations follow basically the same rules even if under different subjective conditions. Nevertheless, there are considerable differences even between the results of economic production units and enterprises that have quite comparable conditions. This cannot be explained in any other way than by differences in the way the people work, especially the management, differences in their political and professional levels, and in their readiness and ability to follow new paths and to undertake necessary, calculated risks.

Worthy of serious thought is also the fact that various organizations react very differently to the same or different shortcomings. There are managers who draw appropriate conclusions from their problems which then become a basis for solution. This was, for example, the case of the Prague Radio-communications Administration or in the Prague Building Reconstruction enterprise, and I could name a number of such cases.

On the other hand, there are cases where an attempt to conceal or ignore shortcomings or take measures which would not affect the people who are really responsible. There is, for example, a whole series of complaints about shortcomings within the General Directorate of the Czech Gas Works concern, where the People's Control Committee had to send back the results of investigations several times. While in other branches, even much smaller offenses were settled by recalling people from their positions, in the Plynostav enterprise in Pardubice only minimum damages were paid.

I could talk about other problems as well. I do not know who authorized the comrades to create their own criteria regardless of valid regulations and to underestimate the social consequences of such behavior. This runs sharply counter to the party line, to the letter of the Central Committee Presidium, and to government actions.

The current practice in a number of agencies and organizations does not meet these requirements at all, especially at lower and middle levels of management and in organizations which operate with extensive material and financial means. Comrade ministers, general managers, other management personnel, and control agencies must assume full, personal responsibility for changing their methods of approach.

Next Two Years Are Decisive for 5-Year Plan

And now, comrades, let us address some problems of the plan and of our goals for the years 1984 and 1985. These 2 years will determine the levels and quality of our economic and social development after 1985. That is why the CPCZ Central Committee Presidium and the government are placing such emphasis on consistently ensuring the fulfillment of the tasks of this year's plan in all national economic indicators and by all organizations, enterprises, and economic production units, on sustaining the present dynamism, and on strengthening all positive trends in the development of the national economy.

We have the potential to achieve a higher growth of national income than planned and thus to establish a better than expected base for the next year. This opportunity must be fully utilized. That is a condition which we already take for granted. To this we must add the favorable domestic policy climate based on experience that, despite all complications, we are succeeding in maintaining the attained level of living standards and social guarantees.

People understand the objective difficulties that we have to overcome and which, in many cases, influence their everyday life. At the same time, they are interested in our more rapid advance, in a more consistent and, in many cases, also more energetic action in solving our problems. We can rely on this interest and make use of it in improving the functioning of operations in enterprises and other workplaces and elsewhere, and in society as a whole.

Within the framework of preparations for the economic summit of the CEMA countries, together with other fraternal states, we are developing a long-term economic-political strategy for the next 10-15 years and beginning to discuss the coordination of national economic plans for the next quinquennium. We can note with satisfaction that the CSSR has approached the preparations for the consultations very actively. We have given support and further developed the idea of coordinating economic policy, including investments, proposed a number of specific integration projects in the area of primary production and the processing industry; and we have submitted a complete concept of systemic measures aimed at increasing the effectiveness of the integration mechanism.

However, if the new quality of integration is to assert itself in practice, it will be necessary to systematically develop the right conditions within the individual states and, hence, in our national economy and in the system of management. We must consistently widen the scope for utilizing the benefits of integration and increase economic pressure and economic incentives. If socialist economic integration is to become a true integrated system, it is absolutely essential that, not only the countries but also their economic organizations become involved in this process as an active factor with its own initiative. In view of our economy's more intensive involvement in the socialist economic integration, the demands on economic production units and foreign trade organizations will be continually increasing.

We must take all this into consideration in drafting the plan for the next 2 years and subsequent periods.

We must say that we were pinning great hopes on the preparation of the plan for next year, especially in view of the generally favorable results achieved in adjusting our economy to the substantially more demanding conditions in 1982 and in fulfilling this year's tasks in a number of branches of the national economy. However, the draft plans for 1984 submitted by the economic production units, which have not yet been corrected by the ministries, show that in most economic production units the edge in the creation of resources and increasing efficiency would completely vanish by the end of this year. Namely, the economic production units foresee a plan fulfillment at the level of the planned annual assumptions which would mean for the rest of the year an economically absolutely unjustified stagnation in the volume of production. The production efficiency would even decline. A considerable number of economic production units ignored the tasks of the Seventh 5-Year Plan for next year, tasks which were set for them and which they themselves had accepted. These unpleasant facts and the incomprehensible approach of our enterprise and economic production unit managers bear out that inadequate use has been made of the Set of Measures, which enables a timely and appropriate preparation of annual plans.

The draft plans of the industrial economic production units greatly differentiated as to their quality but, above all, as regards the gains from better utilization of material and import inputs than envisaged by the Seventh 5-Year Plan. This is reflected, in particular, in a lower creation of resources, in greater demand for investments (the demand for new investments exceeds the plan twofold), in the demand for higher imports while maintaining low exports, especially to nonsocialist countries, and in the demand for higher wage funds. On the whole, the draft plans do not safeguard the planned effectiveness expressed in terms of labor productivity, profit, adjusted value added, and savings of total costs, with the exception of materials costs.

It is necessary to admit openly that the new draft plans submitted by the economic production units are substantially worse than their drafts for 1983. This does not testify to the necessary changes in the approach of most managers. The draft plans of economic production units and enterprises are fundamentally at variance with the 16th CPCZ Congress line and with the goals and intentions of the economic policy of the Seventh 5-Year Plan, with the endeavors for consistent intensification of the economy, a more effective development of economy, and a higher quality of work. Such draft plans are unacceptable and cannot serve as a foundation for the development and preparation of the federal plan for 1984.

We expect the ministries and regional national committees to responsibly assess and study the proposals of the subordinated economic production units and organizations and to draw the necessary conclusions which will fully respect the goals of economic policy and the specific goals of the Seventh 5-Year Plan. It will be required that the sectoral draft plans be developed into proposals which will fully ensure the established tasks and limits of the 5-year plan and which will maintain and intensify this year's positive trends and further improve the quality-related indicators of the 5-year plan.

As far as external economic relations are concerned, in the next 2 years we must ensure balanced payments with the socialist countries on the basis of bilateral compliance with contractual commitments. The assets created must be used for imports for necessary and purposeful production and for expansion of the range of goods offered on the domestic markets.

In relations to nonsocialist countries, it will be necessary to follow the economic policy concept for the Seventh 5-Year Plan. This means that we will have to continue to restore the balance of external economic relations and establish prerequisites for renewing the increases of export prices, especially by adjusting the parameters and the quality of our products to that of the competitors.

The acceleration of economic growth in accordance with the 5-year plan targets will be extraordinarily demanding. While the produced national income is to increase this year by 2.3 percent, in both 1984 and 1985 it should register a 2.9-percent growth. In the last 2 years of the 5-year plan, industrial production should increase by at least 3.7 percent annually, which is a substantially higher growth rate than in the first 3 years.

Preparation of a Long-Term Plan After 1985

Adhering to the concept of the Seventh 5-Year Plan is a prerequisite for continuing, after 1985, the process of restructuring our economy to intensive development. This is of vital importance for formulating the strategy of economic and social development for a period of 10 to 15 years after 1985. The party Central Committee and the government have set the specific tasks and the ways and methods of developing long-term forecast. A forecast for a 20-year development of the socialist society is in the stage of preparation. The Czechoslovak Academy of Sciences is expected to play an important role in this work, with full participation of scientists and practical experts.

The need for such a long-term economic plan is ever more urgent.

We are working on the basic trends of economic and social development for the years 1986 to 1995 at a time when the assumptions and conditions ensuing for every economy from the developments in the world economy are changing, often unpredictably; when the research and development process is accelerating and the innovation cycles are becoming shorter; and when optimal and economically promising production structures are being sought. That is why this work is extraordinarily complicated and cannot be mastered by using traditional methods and formalistic approaches. We are working with a number of alternative forecasts that have many uncertain and unknown factors and where virtually no economy can solve its problems on its own without dependence on others. The difficulty of this task is illustrated by the fact that from all forecasts and long-term plans and programs drawn up in the world so far, most of them encompassing 20 year periods, were overtaken by events relatively soon after being completed.

We have decided to organize the work in such a way that the document should formulate the basic long-term goals and development plans and assess the realistic prerequisites and conditions for reaching them. It should become the basis for the work on medium-range plans which should then be defined in greater detail according to the results of the coordination of plans with the CEMA countries and as a response to new changes in the conditions in our country and in the world. One of the criteria is a constant comparison with the world, with the development in the socialist countries, and with the standard and results of advanced nonsocialist countries. This criterion is decisive for determining whether the long-term concept represents a correct and effective direction of our further economic and social development.

According to the approved course of work on the long-term plan, the planning commission and the ministries should work out the basic problems of the general draft plan of national economic development by 1995 and draw up long-term comprehensive programs and development concepts of individual sectors and selected problems. This work must show conclusively the gains we foresee in the national income, socialist labor productivity, balance of payments, stability of the domestic market, real growth in personal consumption, and the strengthening of the social security system.

Next year a comprehensive document will become the foundation for preparing the program for the 17th Party Congress, for the directive for the 8th 5-Year Plan, and for the coordination of plans with the CEMA countries.

We have entered the second half of the 5-year plan. We know where we are successful in meeting its targets and we also know where the problems and weak spots persist.

The experiences from the first half of this year show that in a number of areas of economic activity we could achieve better results than those set by the plan. We must not waste this opportunity. Let us not forget that it is not a question of this year alone, but one of creating a basis for the remaining 2 years of the 5-year plan.

In the spirit of the conclusions of the CPCZ Central Committee Presidium, we must now concentrate on:

--sustaining the present dynamism of faster economic development and, in this sense, the edge in fulfilling the planned production and adjusted value added; naturally, while fully maintaining the set direction in production's utilization. Through joint efforts, we must ensure that this year's growth of national income exceeds the planned level;

--the unconditional fulfillment of planned tasks at places that have not accomplished them yet, in overall terms and in individual indicators.

This must also be the tenor of the sectoral consultations which will follow this aktiv. They must contribute, in a very concrete way, to ensuring the tasks formulated by the CPCZ Central Committee Presidium resolution.

In this process of organizing and joining efforts and activating people, a great role will be played by mass political work in factories, workshops, and at every workplace. Its protagonists are, and will again be, CPCZ officials, organizations and every communist, because they are the political force that has always exerted its influence on the masses of working people when something big was at stake. This time, too, it will be necessary to rally the activity of socialist organizations, especially the trade unions and the Socialist Youth Union, around party officials and its organizations, in the interest of the most effective development of people's initiative and their participation in the fulfillment of all decisive tasks.

The most important thing will be to make the right use of the people's interest by channelling the broad movement of competing work teams and all participants in the socialist competition in general toward the basic tasks and toward elimination of shortcomings and all weak spots.

The situation requires that in the future we improve our work in all respects, that we work more consistently and that our work yield better results. The situation requires that everyone multiply his efforts, thereby contributing to the final result of us all.

CSO: 2400/436

GERMAN DEMOCRATIC REPUBLIC

EFFORTS TO ECONOMIZE SEEN HURTING GROWTH, HARD CURRENCY EARNINGS

Duesseldorf HANDELSBLATT in German Vol 37 No 34, 19 Aug 83 pp 42-44, 46, 48, 49

[Article: "GDR Economy--Struggle for Foreign Exchange"]

[Text] Drastic import cuts and rigid economizing jeopardize the GDR's ambitious rate of growth. A struggle for the distribution of the desirable foreign exchange has started among the production sectors. Despite FRG credits of billions, the GDR might soon ask for more.

In theory, GDR economists can't be beat. The textbook, "Finanzen und Finanzsystem im Sozialismus" [Finances and Finance System in Socialism], as recently as in 1981, supplied the students with a clean-cut image of the chief difference between socialism and capitalism. The finances of state monopoly capitalism, it is stated there on page 10, "expressed all the anachronism of late capitalism." The western finance system was in a "state of permanent crisis, attested to by permanent inflation and increasing government debts."

Today GDR economists must be more cautious in what they say because permanent inflation, even if hidden behind smart licensing maneuvers by the East Berlin Office for Prices, is no longer unknown in the workers and farmers state. As to increasing government debts, the GDR got out of tune with itself as well.

The totally distorted industrial price structure, which can hardly be corrected because of the especially sensitive and fearfully manipulated consumer commodity prices, even contradicts internal ideas of the functions of prices which are meant to be, on the one hand, economic leverage for higher efficiency and, on the other, are meant to serve as planning instrument.

A GDR authors' collective wrote about that as early as in 1973: "If prices are fixed without taking into account the socially necessary labor effort and do not conform with it, society and particular enterprises get all confused in their production development."

And the GDR leadership was horrified to discover, at the latest in the spring of 1982, when in spite of punctual payments made to western banks it became an unappreciated customer, that its type of government indebtedness had the same consequences as that thus far attributed exclusively to the capitalist West:

Regarding its debts, which in 1981, not counting intra-German trade, reached a record sum of \$ 11.8 billion (roughly 11 billion by the end of 1982), it misled itself perilously as to interests and the dollar rate.

The Bank for International Settlements (BIS), the only source for relatively reliable figures on East Bloc country debts, revealed for the end of 1982 how short term the due dates were for the GDR's \$ 8.9 billion debts to the West (against GDR claims at a clip of 2 billion): 39 percent is due by the end of 1983, and another 13.6 percent by the end of 1984.

Interests last year dropped so much, to be sure, that the GDR, while reducing its debts in 1983 by \$ 800 million, may have to put up still only 600 million (one billion in 1982). All the more dramatic must have been for the GDR leadership the reticence of western banks last year, in a year that is when, in view of low interests, any debtor would have expected extensions at favorable conditions.

It also was a grim experience for the GDR's financial experts to find themselves as much misled in their dollar exchange rate expectations as did their colleagues in Bonn. Experts suspect the GDR has lost more than one million marks since 1970 from false exchange rate estimates alone. With every day that the dollar climbs further the SED state loses much money because presumably circa 80 percent of its western debts the GDR has signed for in dollars.

Not surprising then that western bank managers have recently received much respect and even preferential treatment when they pass through the Invalidenstrasse border crossing point to get to the eastern part of the old Reich capital Berlin. A vice president of a major American bank reports that he was recognized by the first policeman there who said: "You probably want to get to the Foreign Trade Ministry; go ahead then." That the banker had chosen a West Berlin hotel to stay at was something the border guard could not understand at all: "Here you could have gotten a service vehicle too."

Such peripheral scenes are typical of the business climate. Big operators is what they like. That also probably did Franz Josef Strauss some good. The favor bestowed on that Bavarian did not cost the GDR anything but brought benefits.

And then it is meeting GDR interests especially that the FRG government has assumed a guarantee to the creditor banks instead of a security for the million marks of credit. In case of a security, that is, East Berlin could not do anything about the eventuality that uneasy creditor banks try to enforce their claims if the GDR should start missing its payment schedules.

A guarantee, on the other hand, protects the GDR from such eventualities. It then only has to negotiate with the FRG government which will, in case of doubt, straighten things out. Hard DM currency is wanted by which to pay the dollar interests because the GDR has been left in the lurch in several respects:

- Petroleum shipments from the Soviet Union have been cut by 10 percent.
- Oil shipments from Iraq slumped from 1.4 million tons in 1980 to zero in 1981.
- Mainly from the United States large grain shipments had to be imported, 10.37 million tons between 1976 and 1980 alone. All this allowed the urgently needed consolidation of debts only by means of intra-German trade. In this the GDR

performed a foreign economy tour de force that was unprecedented, and not only in East Europe:

--Imports from OECD countries were cut back in the first quarter of 1982 by 33 percent.

--At the same time it became possible to boost exports to those countries, especially by delivering mineral oil products to the Scandinavian countries, by 17 percent.

--It was possible to cut back the consumption of economically vital raw materials by 6 percent.

--Through enormous savings in heating oil (by 25 percent), gasoline (by 30 percent), Diesel fuel (by 13 percent) and pit coal (by 11 percent) it was possible to cut back energy consumption considerably, although industrial output on the whole rose in the same period by 3.2 percent.

That the GDR appreciates intra-German trade more and more in these consolidation and rationalization efforts, is demonstrated by the figures: In 1982 FRG suppliers were able to sell 14 percent more to their neighboring state, while GDR deliveries to the FRG rose by 10 percent. And through the barely 2 million marks East Berlin takes in from federal payments, intershop revenue and minimum currency exchange, the dollar debts can for the first time be fully paid by mark revenue.

Intra-German trade can of course take care of only a part of solving the extensive problems of the GDR economy. Manfred Melzer, who at the Deutsche Institut fuer Wirtschaftsforschung [German Institute for Economic Research] has concentrated on GDR industry, says: "It will be fascinating to see how the GDR will perform the trick of bridling growth from the rear end."

From the way the goals are formulated in the 1981-1985 Five Year Plan and in the directives for the 1983 national economic plan, the economic policy strategy of the GDR leadership looks as follows: High export targets, not detailed in the plans, and increasing private consumption (from 1981 to 1985 annually 3.7 percent via retail, minus the price increases of circa 1.5 percent) are to yield an annual 5.1 percent growth while investment volumes are shrinking.

Investments in the current five-year plan are set at only M 256 billion (on the 1980 price level), while Willi Stoph, chairman of the Council of Ministers, in April 1981 still had announced investments of between "M 268 and 272 billion" up to 1985. Yet already in the 1976-1980 period, at a 4.6 percent growth rate, the plan (5.2 percent) had not been fulfilled. And from the data available about the current five-year plan the German Institute for Economic Research has computed as much as an annual decline of funds for investments of circa 2.1 percent.

Declining investments, however, hurt the GDR's export capability because, among other things, that will also reduce the needed modernizations. Yet East Berlin attaches particular importance to its exports. That becomes evident when interest obligations are compared with export revenue. Whereas in Poland interests eat up 85 percent of the export revenue, the corresponding GDR figure only comes to around 24 percent.

Sure enough, however much currency exports yield, East Berlin does not wish to constrain private domestic consumption too much. "Stable supplies for the population," Willi Stoph said in explaining the five-year plan up to 1985, "are and remain a primary political task." And further: "Let us reiterate that consumer goods production is a matter of concern for the entire economy."

That not everything matches right here is something that is being brought up time and time again in bezirk management discussion sessions. Gerhard Mueller, Central Committee member and first secretary of the Erfurt Bezirk Management, said in June this year: "For the further development of consumer commodity production, it seems to us, it is of crucial importance for the enterprises that are making capital goods fundamentally to change their attitude toward consumer commodity production."

Nothing the GDR leadership fears as much as too much discontent among the population because of supply bottlenecks, as the Polish events have shown what consequences that may have. But already last year, because of the import restraints, massive distribution struggles were seen between the means of production and the consumer goods sectors. The Gesamtdeutsche Institute [All-German Institute] under the Ministry for Inner-German Relations in Bonn already ascertained for 1982: "The provisioning of the population was partly impeded in basic food-stuffs, mainly meat and milk and milk products, and in the most important agricultural refinement products."

Bottlenecks occurred mainly in September and October. The agricultural production cooperatives (LPG's) had a record grain harvest in 1982 (9.9 to 10 million tons) to be sure, but in 1983 it is likely to come to only 9.5 million tons (the requirements lying around 12.5 million tons). Yet mainly because of meat supplies, for which in 1982 one had to buy 1.6 million tons of corn from the United States (deliveries in 1983 and 1984), discontent already is spreading again.

Because there is shortage everywhere, in investment as well as consumption funds, a struggle for hard currency has started in socialist competition, engaged in, by hook or crook, between the combines and the state-owned enterprises. On the one hand, the means of production sector brings in most export revenue. On the other hand, the consumer goods sector demands parity in the allocation of hard currency and means of production.

For instance, in the intra-German trade food shipments to the GDR almost doubled from 1981 to 1982, and for the first time the GDR in the first half of 1982 also bought grain from the FRG (180,000 tons, mainly feed barley).

In spite of that, the fifth SED Central Committee session late in November 1982 announced losses in livestock production were "unjustifiably high." And yet, the urgently needed export revenue comes out of the means of production sector which needs its own hard currency at least for buying spare parts from the West.

The importance attributed to foreign trade is, for one thing, revealed by the fact that for the first time again since 1976 import and export figures are published, even if disguised by listing them in accordance with "economic regions." For 1981 the Statistical Yearbook of the GDR shows an increase of exports to the "nonsocialist economic region" of 28 percent (25 percent in 1980). The buyers mainly are the developing countries, yielding an excess of M 1.9 billion, whereas the trade with western industrial countries resulted in a negative balance of more than M 300 million—which included the intra-German trade.

Yet not only to the West exports must be increased. An almost sensational first indication to the GDR's debts to the Soviet Union was found in the October 1982 issue of the GDR journal DEUTSCHE AUSSENPOLITIK: "As most of these countries could not rapidly increase their exports to the necessary volume, the USSR extended credits for some of its raw material deliveries. A large trade imbalance has arisen between some CEMA states and the Soviet Union that has to be made up for during the 1980's through appropriate export surplus."

Maria Haendcke-Hoppe of the research office for all-German economic and social affairs in West Berlin says: "That 'most' CEMA countries also includes the GDR is something the authors do not state explicitly; they rather refer to an appropriate article in a 1978 issue of the journal AUSSENHANDEL." In any case, the USSR trade proportion in the GDR's overall foreign trade is set at 40 percent in the five-year plan.

For all that, the foreign trade turnover with the USSR already increased from R 6 billion to R 10.68 billion for the 1976-1981 period. The traditional deficit had by September 1982 risen to a negative balance for the GDR of R 2.71 billion.

How much significance attaches to Moscow's reducing petroleum deliveries to East Berlin in 1982 from 19 to 17 million tons can be seen by the fact that the price tag for the 19 million tons in 1981 came to R 1.74 billion, making up 31.5 percent of total GDR imports from the USSR. In the trade with the rest of the East Bloc the USSR meanwhile commands 56 percent of the trade.

It is highly unlikely that the ambitious plans can actually be met. Results of last year do show, however, to the surprise of all experts, that successes are not precluded as such, even when the East Germans are short in cash. Yet the problems to be resolved are enormous, even when one disregards the consumer goods supply situation:

--According to the plan, enterprises are to manufacture more of the equipment they need themselves, the proportion of that supposed to be 23 percent in the first half of 1983.

--The USSR keeps raising its petroleum prices. In 1970 a ton of it sold for R 14, in 1981 the GDR had to pay R 92 for it. According to Hungarian reports, the 1982 price was R 116 and is going to go up even more in 1983 to R 140, although in the West prices have long come down again. For the GDR, importing 80 percent of its energy from the Soviet Union, that continues to require much energy saving, which has good as well as negative consequences particularly because the GDR, with a self-sufficiency degree of nearly two-thirds, is in relatively good shape internationally speaking. By being forced to convert to more and more soft coal (60 percent of the primary energy consumption), cities like Halle, Zwickau and Leipzig "get twice as much air pollution as Chicago, Duesseldorf or Tokyo," as a study of Berlin's Free University says. Instead of curbing emissions, the GDR, in view of the dramatic decay in its forests--where gigantic areas are being cut down at present--seeks to grow mainly resistant tree varieties. Investments for environmental protection, boastfully listed in statistics until 1976, are meanwhile no longer published specifically.

The second negative effect of the energy policy is at least equally serious: In the contest for energy allocations it happens more and more that capacities can no longer be fully used. Indicative of this covert form of unemployment is the law on releasing production funds published in the GDR gazette, Part I, 1982, page 126. This law sets down the capital interest enterprises have to turn over for the investment assets made available by the state, and that is 6 percent.

An exceptional ruling is new to the effect that only "small dues or none at all" are required if "in the interest to the economy" plants are shut down according to plan or capacities are not fully used. Thus far one had to pay anyway, if need be through government credits. But since, among other things, energy shortages keep making full production impossible, the government had to accommodate the enterprises.

Such production blocks also affect the financial capacity of the enterprises of course. Unless the modernization of capital goods, set at M 536 billion in GDR statistics, can be produced--as they hope to--through their own means, the GDR may well say farewell to all the ideas it has had about growth--except if new billions are provided for purchases in the West. The chairman of the Council of Ministers, Willi Stoph, is proud, to be sure, that "nearly 40 percent of the capital equipment is, in terms of value, not older than 5 years." But of course it is also well known that part of the flaunted investment efficiency is that old installations are run down to the point of no return.

Spare part shortages, the contest for allocations of production funds and hard currency in the enterprises, the combines and in proportion to the industrial ministries, not only brings about a deliberately increased rationalization pressure, further intensified by the government in that, starting in January 1984, enterprises have to turn over to the state dues of as much as 70 percent of wages (the "wage fund").

The outcome of the pressure for more efficiency, propagated under the magic formula of "intensification," also results in more friction and tricks among all involved.

FRG corporations have long been familiar with those GDR agents who surface overnight with suitcases somehow full of DM and buy important spare parts.

What we call "unbureaucratic" is highly risky over there. Touching the state's foreign trade monopoly without permission from the top means risking one's neck.

Yet loopholes have become plentiful meanwhile. Circa one fourth of the 133 centrally managed and 93 regionally managed industrial combines formed since 1980 enjoys the preferential status of having their own foreign trade companies.

Enterprises such as the Robotron electronics combine with its foreign trade enterprise Robotron Export-Import may meanwhile conclude foreign trade contracts in their own name and at their own billing and, in contrast to the past, transact their own business not only in the export of spare parts but even in the export of end products. Even if hard currency continues to go through a complicated

coordination process and must always again be redistributed, one may suspect that quite a few general directors of these combines manage to provide themselves with more currency than normal combine managers do who do not enjoy that kind of leeway.

Such privileges decisively depend on:

- the combine's importance to economic production;
- the rapport between the combine director and his industrial minister;
- the place the director holds in the party (e.g. as a Central Committee member);
- and the rapport between the director and the enterprise managers in the correlated state-owned enterprises.

A combine like Carl Zeiss Jena, e.g., directed by Wolfgang Biermann, whom FINANCIAL TIMES calls a "western type of manager," can sooner expect hard currency for needed spare parts by arguing it must produce a sufficient number of night vision apparatuses for the army than can some furniture combine.

Fine and direct rapport with an industrial minister is mainly necessary to be able to fulfil plans even when the best intention makes them impossible to fulfil--i.e. by means of cooperative and tacit plan reductions. If a combine director, like Erich Mueller, for instance, of the Leuna Works near Halle, also is a Central Committee member, which puts him at the top echelon in the party, he furthermore can affect the new plans decisively while they are still in the discussion phase.

Finally, in executive decisions inside, the boss can and will distribute the scarce resources as skillfully as possible among the enterprises he personally prefers. A side-effect is that in the struggle for funds many an enterprise manager feels neglected, loses his motivation and falls behind in his plan quotas.

Decision authorities and informal interlinks are intricate (see chart). It is clear that a combine like Polygraph Leipzig with its 14 state-owned enterprises and its own foreign trade company is more flexible than a combine like the Fritz Heckert machine tool enterprise, which must share the foreign trade enterprise VEW Export-Import with two other combines. The example also illustrates that a combine's influence does not depend on its size but on the importance it has to the state. And since export has become the maxim, export-intensive combines can more easily make themselves prevail than can most consumer goods combines in the GDR.

What happens when in the contest for distributions in the production sectors unexpected funds suddenly become available is shown by the development of trade between Poland and the GDR in the last 3 years. The figures, known only from Polish statistics, indicate that the GDR at once responded to the interruption of Polish deliveries by cutting back its own deliveries to its Eastern neighbor.

Already in 1978 (minus 2.8 percent) and in 1979 (minus 1.1 percent) the Poles had to curb their exports to the GDR to 3.64 billion zloty while the GDR added to its exports still more than four billion zloty (plus 9.2 percent in 1978 and plus 3.7 percent in 1979). When the Poles even in 1980 (by 1.9 percent) and in 1981 (even by 10.4 percent) cut back deliveries, the GDR also cut down its exports: by 7.9 percent in 1980 and by 3.9 percent in 1981.

The goods retained were at once redirected to their own enterprises. Experts suspect that once again the sector making capital goods profited more from it than did the consumer goods sector.

Nonetheless, despite all the efforts and trade policy opportunities by chance, the GDR is likely to find it very tough to reach its projected growth rates due to the tighter investment budgets all the time and in view of the recessive world markets and drastic import cutbacks, which also more and more annoy export recipients such as Sweden, Austria and Great Britain. Maria Haendcke-Hoepfe has said: "Even while conducting a successful export policy, the GDR must rely on new western credits."

On the other hand, the constantly propagated export profitability, and the manufacture of products at world market standards, can hardly be accomplished through their own capacity and without western technology imports. And then there are the GDR's -- secret -- arms expenditures which surely are going to affect all other plans negatively with the East-West confrontation escalating, if they are not thrown overboard entirely.

The key issue therefore remains: from where is the GDR getting its foreign exchange? Mainly from its neighbor, the FRG. Franz Josef Strauss realized that. And he already put his cards on the table: "The FRG surely would find it possible to put the GDR into serious economic straits--dropping the swing, excluding intra-German trade from the EC trade, cutting the sales tax preferences, denying the billions in credits. But is it our desire to embroil the GDR in economic warfare? Can that now be our desire? Or, if you are asking me, who would be for it in the first place?"

The next credit transaction between the two Germanys is sure to come--only that the GDR will have to pay a political price for it.

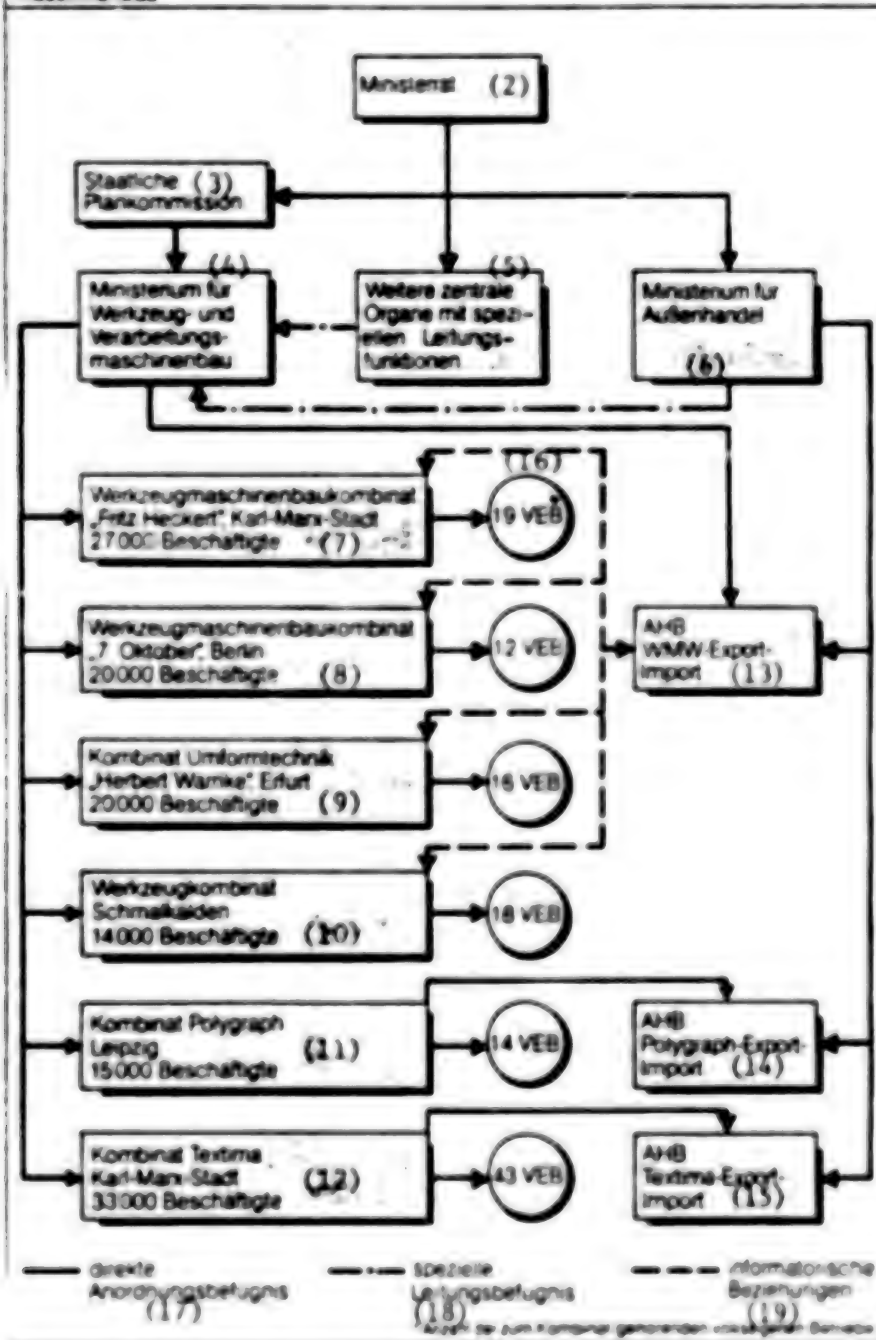
West German Billions Paid to the GDR in 1982 (Without Export Revenue) in Millions

Transit Lumpsum	325
Construction Measures	410
Remitting Visa and Entry Dues	17
From Berlin Budget for Refuse Removal, Rubble Removal, Sewage Disposal and Tunnel Maintenance for Subway Sectors (of which 64 million in exchange units on the basis of the inner-German agreement)	94
Postal Lumpsum	85
Service Remissions	11.5
Reduced Revenue due to Special Sales Tax Regulations	310
Other Payments from Transit and Commercial Traffic	circa 350
Total	circa 1800
Mandatory Exchange	410
Intershop Income	700 - 800

Entscheidungsfindung in der DDR

(1)

Kombinate und Außenhandelsorgane des Ministeriums für Werkzeug- und Verarbeitungsmaschinenbau



Key:

- (1) Decision Making in the GDR--Combines and Foreign Trade Organs under the Ministry for Construction of Machine Tools & Processing Machinery
- (2) Council of Ministers
- (3) State Planning Commission
- (4) Ministry for Construction of Machine Tools & Processing Machinery
- (5) Other Central Organs With Specific Management Functions
- (6) Ministry for Foreign Trade

- (7) Fritz Hecker Machine Tool Construction Combine, Karl-Marx-Stadt, work force of 27,000
- (8) 7 October Machine Tool Construction Combine, Berlin, work force of 20,000
- (9) Herbert Warnke Forming Equipment Combine, Erfurt, work force of 20,000
- (10) Schmalkalden Tool Combine, work force of 14,000
- (11) Leipzig Polygraph Combine, work force of 15,000
- (12) Textime Combine Karl-Marx-Stadt, work force of 33,000
- (13) Foreign Trade Enterprise WMW Export-Import
- (14) Foreign Trade Enterprise Polygraph Export-Import
- (15) Foreign Trade Enterprise Textima Export-Import
- (16) Number of State-Owned Enterprises in the Combine
- (17) Direct Command Authority
- (18) Special Managerial Authority
- (19) Information Relations

Key:

- (1) Plan Figures on the GDR Economy 1982*
- (2) Outcome (absolute)
- (3) Changes from Previous Year (in percent)
- (4) National Income
- (5) Industrial Commodity Output
- (6) Retail Business
- (7) Real Income
- (8) Investments
- (9) Labor Productivity
- (10) Own Construction of Means of Rationalization
- (11) New Housing Construction and Modernization
- (12) Production of Industrial Robots
- (13) Soft Coal Mining
- (14) Energy Consumption
- (15) Heating Oil
- (16) Gasoline
- (17) Diesel
- (18) Pit Coal
- (19) Soft Coal Briquettes
- (20) Power Plant Capacity
- (21) Patent registrations
- (22) Agriculture
- (23) Grain (Record Harvest)
- (24) Hogs
- (25) Laying Hens
- (26) Cattle
- (27) Fat Stock Production
- (28) Traffic
- (29) Freight Transport
- (30) Railroad Transport
- (31) Inland Navigation
- (32) *Figures are taken from the plan fulfilment report of GDR, in which not everything is published, however. Export figures are not quoted at all. Source: Gesamtdeutsches Institut--Bundesanstalt fuer gesamtdeutsche Aufgaben.

Unter Plan (1)		
Kennzahlen zur DDR-Wirtschaft 1982*		
	Ergebnis (absolut) (2)	Veränderungen gegenüber Vorjahr (in Prozent) (3)
Nationalenkommen (4)	196 Mrd. Mark	+ 3
industrielle Waren- produktion (5)		+ 3.2
Einzelhandelsumsätze (6)	103 Mrd. Mark	+ 1
Realenkommen (7)		+ 3
Investitionen (8)	54.3 Mrd. Mark	- 4
Arbeitsproduktivität (9)		+ 3.6
Eigenbau von Rationali- sierungsmitteln (10)		+18
Wohnungsneubau und -modernisierung (11)	187053 Einheiten	+ 0.9
Produktion (12) von Industrie-Robotern	21900 Einheiten	+35
Braunkohleförderung (13)	276 Mio t	+ 3.4
Energieverbrauch (14)		
Heizöl (15)		-25
Benzin (16)		-30
Diesel (17)		-13
Steinkohle (18)		-11
Braunkohlebriketts (19)		- 3
Kraftwerksleistung (20)	22000 Mega- watt	+27.3
Patentanmeldungen (21)	8500 Einheiten	+ 5
Landwirtschaft (22)		
Getreide (Rekordernte) (23)	10 Mio t	+11.71
Schweinbestand (24)	12 Mio Stück	- 5.9
Leggehennen (25)	25 Mio. Stück	- 2.3
Rindbestand (26)	5 Mio Stück	- 1.0
Schlachtproduktion (27)	2 Mio t	- 7.6
Verkehr (28)		
Gütertransport (29)	83 Mio t	- 8
Eisenbahntransport (30)	323 Mio t	+ 4
Binnenschifffahrt (31)		+ 1.2

* Die Zahlen sind dem Planerfüllungsbericht der DDR entnommen, in dem jedoch nicht alles veröffentlicht wird. Zahlen über den Export werden überhaupt nicht genannt. Quelle: Gesamtdeutsches Institut - Bundesanstalt für gesamtdeutsche Aufgaben - (32)

HUNGARY

HEAD OF PRICE OFFICE WRITES ON LIQUIDITY PROBLEMS, CONSOLIDATION

Vienna EUROPAEISCHE RUNDSCHAU in German No 3, 1983, pp 59-70

[Article by Bela Csikos-Nagy, Chairman of National Material, Price Control Board: "Liquidity Problems and the Consolidation of the Hungarian Economy"]

[Text] There are increasing indications of changes ahead in years to come in the state management of the Hungarian economy. To get set for that, the MSZMP Politburo established an advisory body.

For the third time in 25 years the party executive is taking the initiative in updating economic management and is charging with the critical analysis of the economic situation, the summation of discussions about the management system, and the examination of recommendations a commission set up especially for this purpose.

After the events of 1956 in Hungary an economic commission was set up to probe into the errors committed during the transition toward the socialist planned economy after World War II. In the first half of 1975, that commission presented proposals for introducing a new economic policy in a copious document. The MSZMP turned those proposals, as the framework of the new economic policy, into its guideline for action. Already in 1957, important measures were carried out--first in the farm policy. The delivery obligation for farm products was done away with; it was replaced by a free governmental purchasing authority on a contractual basis. Changes ensued also in other sectors. Profit was recognized as motivation; profit sharing for working people was introduced. In setting wages enterprises became autonomous, subject to establishing basic labor conditions, minimum and maximum wage limits, and to state taxation on wage hikes.

The economic policy of 1957 proved efficient for a decade. The economy in shambles was consolidated remarkably fast, financial support from the Soviet Union playing a role in this which, however, could not guarantee a permanent solution. Against all expectations the socialist transformation of agriculture was relatively smooth, in the history of the building of socialism perhaps for the first time in such a way --that even in the transition period no production decline took place and it --became the starting point for the intensive development of agriculture which then also became internationally known as an industrial agricultural production method.

The socialist transformation of agriculture released manpower. That was one of the reasons why the political leadership came to regard extensive industrialization, i.e. establishing as many jobs as possible, as the main line of development. Yet soon the reserves for extensive development were exhausted. After achieving full employment, intensive development became the order of the day. To get set for the changes involved in economic management, the MSZMP Politburo appointed a coordination commission in 1965 which submitted proposals for implementing the economic reform of 1968. In the non-agrarian sector they did away with the rules based on mandatory central plan directives. The main elements of industrial management then became independence, accountability for decisions made, and the assumption of risks. In conformity with it a mixed pricing mechanism came into force. For some of the fixed prices a maximum was set down. In broad areas, the setting of prices was given free range, partly in such a way that the setting of prices was replaced by regulations on maximum profits or price fluctuations were held back.

An analysis of the 1967-1974 period clearly demonstrated the positive changes that had taken place due to the economic reform. At that time the annual economic growth rate lay between 6 and 7 percent. Labor productivity boosts subsequently became the only source of growth. The chronic deficit in the balance of payments in terms of convertible foreign exchange was eliminated; in fact, there was a chance for creating hard currency reserves. That was accomplished without any import restraints. The proportion of products bought on the world market even rose in the production structure and in supplying the population with goods. Provisioning improved together with the standard of living. In economic history that period may rightly be called the golden era of the Hungarian economy.

The Oil Shock

This favorable developmental process was broken by the first oil price explosion OPEC carried out late in 1973. On the global scale, Hungary also was among the countries whose terms of trade worsened the most, suffering a 10-percent loss in national income. Hungary's economic situation was further aggravated by the steady increase of the relative shortage of natural resources within CEMA. That doubtless hit Hungary the most because there the portion of import material per increase in production unit was the highest.

For understanding this matter, the following must be considered: After World War II--up to the mid-1960's--the annual increase in energy and raw material imports within CEMA assured domestic production of a 4 to 6 percent increase of the national income, which satisfied economic requirements up to 90 percent. Today Hungary has to produce under changed international conditions. Today East-West trade plays a structure-regulating role because two thirds of the needed industrial raw materials can only be bought on the world market or by being paid for through convertible currencies. The import of energy sources through convertible currencies remains marginal.

It took 6 years to make up for the imbalances caused by the first oil price explosion in 1973. But then, in 1979, came the second oil price explosion, to be sure. This made things still tougher for the Hungarian economy although petroleum was practically imported only from the Soviet Union and the price that had

to be paid in transferable rubles for the contractually negotiated contingents on the average lags behind world market prices by 5 years. In other words: the impact of the second oil price explosion shows up gradually between 1981 and 1986 in the Hungarian economy.

The shock effect of the second oil price explosion now is mainly due to the fact that it hit the country in the final stage of its development program that was partly carried out by means of foreign credits. That program increased the Hungarian economy's need for petroleum and petroleum products, and it became apparent that the import contingent from the Soviet Union cannot be raised in the 1980's. A change was needed in economic policy. The decision was made late in 1978; it is expressed in the Sixth Five-Year Plan that runs from 1981 to 1985. That plan reduced the average annual growth rate of the national income to 2.8 percent, expecting two thirds of the growth to come from export surplus. In the domestic distribution of the national income growth the plan assigned the priority to the standard of living, over investments. Expectations were that in the utilization of the national income during the first half of the 1980's the proportion of investments would drop from 20 to 17 percent.

Expectations were that through the economic policy change the problems caused by the oil price explosion could be eliminated in 5 years and one could start as early as in 1985 in reducing foreign debts. Yet in 1981 and 1982 it became clear that the economic situation was tougher than anticipated and economic consolidation could be achieved only through the most extraordinary efforts. That also then explains the setting up of the advisory commission.

The Turn of 1979

It was easier to decide on the turn in economic policy in 1979 than to put it into practice. To avoid overinvesting, the Hungarian economic policy has many times before resorted to tightening its monetary policy, but in most cases without success. This restrictive policy also ushered in a special cycle in economic development. Typical of the cycles was the double step quality of the processes. On the first step building activity and machine investments were speeded up and were stopped by the withdrawal of funds. The second step was marked by an accumulation of supplies. In the last two decades, three complete cycles ran their course, and the economic policy turn of 1979 coincided with the first step of the fourth cycle. The danger was the economic policy intentions would be thwarted, in 1980 perhaps by excessive supplies and in 1983 by the fifth cycle.

Thus far they managed to prevent the second step of the fourth cycle, when one must expect supply surpluses, and the starting of a fifth cycle. That was however only possible through a permanently active and operative economic policy. Intervention in economic activities between 1980 and 1982 brought in a system that had previously not been known, which also made for social conflicts. According to the enterprises, the government's economic policy is unreasonable and deprives them of the financial resources by which they, on the one hand, have to fulfil their previously assumed obligations and, on the other hand, could finance the modernization of production.

Here we are up against a familiar problem in the socialist economy. Enterprises work permanently under the "compulsion" of growth and the full utilization of capacities, regardless of whether the enterprises themselves are materially interested in increasing profits or productivity or in reducing prime costs. In Hungary this compulsion has rather been boosted through the 1968 economic reform by tying the wage level increases to profit increases, which could be eliminated only by doing away with the base oriented wage regulation as of 1983. Overinvesting was facilitated by that the 1968 economic reform in some types of investments (e.g. in communal construction) proceeded until recently not from planned financial limits but set down parameters in natura. Thus it also became the practice to plan costs too low, mainly because procuring extra funds hardly caused any difficulties--except in the tight money policy period. The same reasons also caused excess supplies.

Enterprise management also was made more difficult by that the 1980 price reform confined official price regulation in industry to a small sector replacing the setting of prices by price-stabilizing mechanisms. Here one should especially also mention the legal regulations on unfair profit and, with regard to some selected products, the decree on mandatory advance information on intended price hikes and the enforceable semi-annual veto right of the pricing authorities. All that was not enough, however, to keep the profit within the planned limits. It is typical of 1981 and 1982 that despite a repeated skimming off of financial resources the enterprises were able to raise wages and investments beyond the plan. The real income rose by circa 2 percent in 1981, and in 1982 another increase could only be prevented by that the price increase carried out raised the planned 5-percent inflation rate to 7 percent.

It must be added that 1981 and 1982 occurred under much more difficult international conditions than could be anticipated when the Sixth Five-Year Plan was drawn up and decided on. Because of the protracted world market recession, export could be increased to a smaller extent only than planned. Thus the economic growth rate lagged behind the planned one. The 1982 national income surpassed that of 1979 by hardly 2.6 percent, which is tantamount to marking time and means stagnation, even though Hungarian agriculture, even at the world scale, took a step forward that cannot be ignored. In grain production and livestock breeding Hungary was able to catch up with the best. Because of this dynamic development--and although world market prices dropped in 1982--the foreign trade balance in the foodstuffs industry improved notably, and the plan was surpassed. This branch alone, however, could not make up for the unfavorable export trend in industrial commodities.

The Credit Embargo

In this situation Hungary was hit by the partial credit embargo the West imposed on the East.

Hungary's net debts at the end of 1981, i.e. prior to the partial credit embargo, came to \$ 5.5 billion in convertible currency and to \$ 0.8 billion within CEMA. That does not seem to be too much, considering that this sum comes only to circa 14 percent of the Hungarian capital assets. It must also be added that Hungary has no foreign capital. The indebtedness came to 73 percent

of the export, computed at parity. In converted currency it was 114 percent and in transferable rubles, 18 percent. The only unfavorable parameter is the part that has to be redeemed in convertible currency, which in the 1981 export came to 30 percent at parity and where, along with the high interests, the unfavorable structure in the running of credits also plays a role. This problem does not arise in relation to the transferable rubles because, according to Hungarian-Soviet accords, debts accumulating under the "oil invoice" call for long-term redemption.

The partial credit embargo doubtless constitutes a political challenge--expressing the exacerbation in East-West relations.

All this hit Hungary unexpectedly. Among other things it means that under the tough international conditions, complicated as they had been even before, one had to start already in 1983 in reducing debts in convertible currencies, instead of 1985, as planned. That only strict import curbs would make that possible was clear from the outset. As a GATT member state Hungary had to announce that import curbs should temporarily be introduced to protect the strongly dwindling foreign exchange reserves. The government pointed out it was done for the sake of improving Hungary's balance of payments and the measures had become necessary through external circumstances. Not only the credit limitations played a role here but also protectionist measures by some industrial market economy countries, which made it tough for Hungary's trading activities. Thus Hungary is temporarily forced to give import licenses regardless of whether foreign exchange is available for them. The government also announced import limitations would be lifted to the extent that the causes that led to them were eliminated.

The partial credit embargo caused liquidity problems. There was the danger of insolvency. As in other countries, it would have become necessary to delay the redemption schedules for credits received. That it succeeded in avoiding this danger no doubt was a great success of the Hungarian economic policy.

Restructuring the Economy

The change in the world economy presented the Hungarian economy with new problems. The indispensable restructuring of the economy can only become possible through appropriately adapting to the new conditions. That must find its expression, above all, in state economic planning.

The traditional state economic planning system in the CEMA countries with relatively narrow domestic markets, as is the case in Hungary, takes for granted that trade within CEMA is crucial for economic growth. So the practice evolved that

- the five-year plan periods coincide in time among the CEMA member states;
- the preparation of five-year and annual plans goes through two stages;
- the developmental conception is worked out in the first stage, on the basis of which the standpoints of the CEMA countries emerge, which they then represent at the bilateral foreign trade negotiations; and
- the draft plan to be presented for ratification--as a general rule--is formulated once the interstate foreign trade negotiations are concluded.

This planning system was based on intra-CEMA planning coordination with respect to the economic growth rate as well as the main questions of structural policy. The plan coordination system based on foreign trade agreements grants freedom of decision to the CEMA countries in setting down their economic policy while an important portion of the industrial investments is determined by that system.

This plan-determined course of economic development raised problems even then, when foreign trade beyond CEMA boundaries only played a marginal role because one could not be sure that the production capacities set aside for world market exports in the plan could actually be used, and that at a price set with an eye to the balance of payments in the plan. And that is the reason why even the fact that the plan assured a balanced economic development by the material and commodity balance system, i.e. by the method of balance accounting, does not per se preclude imbalances.

Between World War II and the first oil price explosion in 1973, no insurmountable difficulties resulted from that, partly because of the reciprocal interests within CEMA the law in those countries focus on having the income from the export of traditional export commodities partly or fully take care of the financing of import commodities in convertible currencies.

The thus evolved planning system brought more and more functional disturbances to the Hungarian economy--starting in the second half of the 1970's--because economic growth there increasingly relied on the intensification of East-West trade. This was not just a matter of problems in foreign trade relations but it also means a novel task from the vantage point of the plannability of the production structure and, hence, of investment regulation. In parallel with the reduced role of bilateral inter-state foreign trade agreements within CEMA, ways and means were needed to intensify East-West trade.

Up to this day the question has not yet been properly posed about the fundamental changes that have to be carried out in the planning system when in economic growth the role of East-West trade becomes prominent. Some answer to the question was the remark that the plan should have to be flexible. That, however, just puts the emphasis on the hypothetical nature of the plan. Yet the plan itself in many of its elements and quantitative assumptions, relies on the notion that these elements and assumptions are precise. The lack of appropriate rules of the game in economic policy still today induces official organs to consider the basic plan computations as determinants for plan decisions.

A Dual Problem

The tasks to be resolved are so intricate and new that they call for a whole number of steps that simply were not anticipated in the traditional methods for drawing up plans. It is a dual problem. On the one side, the open Hungarian economy calls for a new planning method. On the other side, we are now in a consolidation process in which temporarily--on behalf of adapting to the altered conditions of the world economy--the decision-making system in the field of economic processes, which is based on routine, has to be changed.

With regard to all these facts, a consolidation conception is being elaborated that is to extend up to 1986. The plan itself is a complex system of means and

actions. The economy cannot have two different systems for its objective and set down two different operational procedures. It is suitable for the plan itself to establish the adaptive courses and methods. Therefore, the consolidation conception is being integrated with the annual economic plans.

Actually we are already in the midst of implementing the consolidation conception. State planning is enriched year after year by new elements in the connection of which the need for program preparation has already risen. Programs have already been prepared for energy rationalization, material savings and increased use of secondary raw materials. On the agenda is the checking into public consumption and all the questions besides that may make for budget reorganization. Yet the main issue of the consolidation conception has not yet been resolved: the charting of the new course that is to lead to new growth or any of the matters that have to do with that. In other words: No answer is available to how the relation between economic growth and an increased import share from the West could be used reciprocally, at least until exports to the West can meet the financing of such economic growth.

The problem is that the linking between ways and means--except for the thrift program--relies merely on balance analyses which just summarize the planners' intentions. Under the concrete forms, the terms are not disclosed under which ideas can be realized, nor the decisions that are necessary to raise prospects for implementing the goals that are formulated in the plan. As the brake applied to economic growth is conceived of as an indispensable yet temporary step on behalf of recovering the disturbed equilibrium, along with the so-called stabilization elements increasingly more so-called activation elements also have to be built into the regulation system.

Restructuring the economy presupposes the creation of an extensive developmental conception which provides a synthesis of the natural givens in the country, the expectations CEMA has formulated of the Hungarian economy and the receptivity by the world market. The discussion about this conception are presumably going to reach a point of rest in 1983, and the different views will begin to get clarified which today still exist in the following areas:

- Possible alternatives for an efficient production structure,
- reducing or enlarging the number of products to be manufactured simultaneously or of the markets, to ensure the most suitable course, or
- greater skill in uneconomical production.

The Fourth Phase of the Economic Reform

The liquidity problems impose on the economic management system another course of development, as follows:

- Steps are planned that have to be postponed until the consolidation process is complete. They have to do with the convertability of the Hungarian currency.
- Other steps that have been planned have no bearing on the liquidity problems. That is a matter of understanding and of appropriate preparation as to when and how they are to be implemented. That includes, e.g., the modernization of institutional systems with the purpose of creating better prerequisites for the market policy.
- Finally there are steps that ought to be taken as fast as possible, precisely because of the liquidity problems.

Among the urgent tasks is creating the conditions for rational economic forecasting. Hungary has done much since 1968 for broadening the market factors' action radius in the setting of prices. On the assumption that the Hungarian economy is sensitive to foreign trade and that some equity must exist between economic efficiency and international competitiveness, they introduced in 1980 the concept of competitive prices. The industrial producers' prices have since 1980 been linked, directly or indirectly, through specific rules of the game, with the world market export or with import prices.

Yet rational price formation presupposes an adequate forecasting system that differs fundamentally from traditional socialist accounting systems. The fact is that forecasting attributes change when they are made, not to inform central planning, but to become a substance for rational enterprise decisions.

Two particulars have to be singled out in the normative cost accounting introduced in the socialist countries. For one thing, costs that do not actually arise, or not to the anticipated extent, must still be accounted for as costs. That includes those of which the state budget deducts a certain portion for central economic financing, as in the case of costs of amortizations and the technical development fund. Furthermore there are costs that can or must be accounted for as general costs, even if in practice their cost level was over.

Another particular of traditional socialist forecasting is the principle of adjusting to average costs. More precisely: For price formation the formula costs + profit is based on the principle of average costs. Cost standards are handled in terms of average terms.

This cost accounting system forces the enterprises to forecast in terms of gross figures. An enterprise may show a loss even when the price exceeds the cost limits. Thus the state budget shows subsidies even in cases where it gets more and more revenue from enterprises. In spite of the price reform, Hungary kept many forecasting and finance system elements of the years before 1968. In the course of the measures to be expected in 1985, i.e. the fourth phase of the economic reform, the most important task will be a conformity between competitive prices and the financial forecasting system.

The Import Economy

With regard to the liquidity problems, the import economy becomes the central problem. The import economy conception has three steps. The first step, the so-called strict import economy, played a limited role in the second half of 1982. Its basic task was to coordinate debts with import financing while preserving solvency. That could be coped with only through a significant, circa 10-percent, import curb. That sector of the strict import economy can generally be considered successful. Only a few fields experienced temporary production disturbances. The provisioning of the population worsened only slightly.

The second step of the import economy was taken in 1983. Here four elements must be emphasized:

1. We expect there will be no liquidity problems. Someone who has an import license must also have the hard currency. That can, however, only be done through new credits, which truly apply, and through moderate import curbs.

2. Instead of strict import curbs, we went into a reference system for 230 large-scale enterprises. These enterprises use 75 percent of the imports of materials. The introduction of the enterprise reference system serves to ensure the enterprises' freedom of decision in programming their production while preserving the traditional import framework. The contingent economy and individual licenses are maintained where applied since the new economic mechanism was brought in, in 1968. Official administrative organs and domestic trade have foreign exchange contingents.

3. In addition to the means used in import curbs, imports from the world market are basically reduced by curtailing domestic demands or raising the prices for imports. Both for curtailing domestic demands and raising the prices for imports many measures were used, such as the devaluation of the forint and import dues. In issuing reference percentages, economic policy demands were set down subject to the economic equilibrium conditions. A deviation from these demands can lead to curbs of import opportunities or even the barring from them.

4. New rules have been issued on how to acquire the right to import.

It may be assumed that at the given time GATT will issue restriction measures or, more accurately, that the import economy system introduced in 1968 will, thanks to certain modifications, be gradually attained in 1985. Through revising the reference system or import authorizations in the area of certain products, that can be integrated in the general economic management system.

1982 was a critical period because the strict import economy interrupted the restructuring process which forms an important condition for developing the economy's export potential. This exacerbated the contradiction between the short-term goal of eliminating the liquidity problems on the one side and the medium-term goal of restructuring, on the other.

Prospects for the Near Future

As to the modernization of technology and restructuring, the biggest problem lies in coordinating the criteria for import substitution and export promotion. Such a coordination is bound to depend on the given relative prices. Today, expenses for energy rationalization are by and large given preference to export-promoting investments. Yet the import economy, as compelled by the partial credit embargo, is irrational. For that reason it had to be replaced in 1983 by the reference system, in view of the complexity of economic processes. Furthermore, all efforts are important that will prevent the second phase from lasting too long.

Experiences gained in the course of planning for 1983 indicate that even an insignificant drop in foreign debts leads to heavy conflicts about the distribution of the national income that can be used domestically. The 1983 plan, along with increasing national income by 0.5 percent, envisages a drop in the population's real income by 2 percent, with the share of accumulation in the national income having to drop to 12 percent. That is a much lower accumulation rate than anticipated in the Sixth Five-Year Plan. Hence, in working out the consolidation conception, the problem of capital supply must become the focal point and the consolidation process must be funded through the balance of payment planning in rubles related to convertible currency.

In connection with that it seems important to find a new basis for the East-West Joint Ventures. Debts unilaterally based on high-interest bank credits in the various cycles is something that causes intolerable burdens. This form of capital import burdens the capital importer unilaterally with the risk. One must at least examine the possibility that large-scale enterprises share the risk and rely on profit sharing.

Some think growth problems might be resolved through closer economic ties among the CEMA member states and through more efficient production specialization. They also stress the reduction of differences in the economic management systems in the various CEMA countries and the approximating of the national economic mechanisms.

What is, at least, unequivocal is that CEMA continues to be the most important market for the European socialist countries and the consolidated development of the Eastern states is inseparable from economic planning that takes opportunities realistically into account and from a cooperation within CEMA that pays increasing attention to economic efficiency. A point must however also be made of distinctions in the East-West trade:

--for one thing, in the case of the Soviet Union, with its emphasis on energy and foodstuffs;

--and then, in the case of the small states of CEMA, which for their natural resources are in part dependent on the world market, and the financing of which largely becomes possible only through diversified commodity structures and ensuring hard currency with respect to import shares in export products.

As to the first case, central direction for foreign trade not only is possible but patently necessary. In the second case, regulating foreign trade must rely on a decentralized system of decision-making in which merely the conditions for rational conduct can be centrally determined. As to the first case, foreign trade can be transacted on a natural basis, for which all sorts of compensation transactions appear sufficient. For the other case, however, modern forms of cooperation have to be developed.

As the problems differ in the different cases, the ways leading to solutions also will differ. Thus it is not astonishing that the various CEMA countries emphasize different elements as innovations for their economic management system and that Hungary, which among the CEMA states is most sensitive to foreign trade, uses all opportunities presented to a socialist country for rationally adapting to the world market. That is why Hungary joined the International Currency Fund and the World Bank. The main reason--at least over long range--was not the opportunity to take advantage of new and favorable credits, but the opening up to markets of the developing countries because, as one knows, only member countries can take part in investments launched through credits from those international finance institutions.

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OFFICIAL 1979 REPORT ON FOREIGN DEBT MISMANAGEMENT RELEASED

Warsaw PRZEGLAD TECHNICZNY in Polish No 16, 17 Apr 83 pp 20-30

[Article by Ryszard Slezak: "The Dollar Dilemmas"]

[Text] In 1978, two Bank Handlowy economists, Stanislaw Czulowski and Ryszard Slezak, prepared an unpublished report on Poland's debt situation. At that time, they warned that the Polish economy was entering a period of structural and balance-of-payments crisis. They predicted that unless the negative phenomena in the economy are energetically counteracted, and unless the domestic and international economic policies are revised, the national income generated in 1980 may be lower by as much as 20-25 percent. They also predicted that the country would be unable to meet its financial obligations to foreign countries. They urged the negotiations begin on rescheduling a large part of these obligations falling due in 1979-1984. Their views and proposals were ignored and no one even talked to the authors of the report. The atmosphere being as unfriendly as it was, the authors themselves did not return to the subject. They are not willing to talk about it even today, when their predictions have come to pass. Below, we present another report prepared by Dr. Ryszard Slezak in 1979. It concerned Polish-American economic cooperation assessed from the financial point of view. It confirms our earlier publications and shows how much is still to be done to safeguard Poland's financial interests in the domain of banking and foreign trade.

In the 1970's, Poland became a huge importer, financing its purchases with foreign credits. The hard-currency credits have never been so high in Poland's postwar history as in the last decade. This was accompanied by a fast and dynamic development of contacts between banks. U.S. and West European banks played an especially significant role in this cooperation. The influence of the American banks extends worldwide. They possess enormous capital which allows them to exert considerable influence on many domains of political, economic and social life, and not only in the United States.

This private capital is an uncontrolled world power which itself controls the economic policies of the governments of many Western countries and international politics.

Cooperation with this private capital has to be managed wisely, skillfully and consistently by representative bodies of sovereign national authorities.

The huge credits Poland obtained from private banks were not adequately protected from profiteering against the national interest. The blurred national finance policy did not require Polish banks to make a comprehensive analysis of all elements of this cooperation in order to avoid losses and prevent exploitation by foreign creditors.

American banks profited considerably by cooperating with Poland and not just from the interest earned on credits granted to Polish financial institutions. They also gained by being able to use the revenues from Polish exports. This unjustified financial gains were a symptom of the weakness of the Polish partner. The reasons for these gains were the following:

/1/ Polish goods delivered to the U.S. were often not accompanied by export invoices or other required documents. These were delivered 7, 14 or even 30 days after the delivery of goods. Delivery time was usually 12 days. In practice, this represented a short-term credit for the American buyer. The U.S. importer and his bank transferred the export revenue to the Polish partner after selling the Polish goods on the U.S. market and collecting revenue from the sales. This means that the Polish side bore the entire financial risk of the transaction with all its consequences.

/2/ The U.S. importer and his bank were interested in delaying the transfer of revenue to the Polish side. In practice, this signified a search for various mistakes and flaws in the execution of the contract and paperwork which could justify a delay in transferring the funds. Payment was almost always made some thirty days after the delivery of Polish goods to the American importer. The question of delayed and separate delivery of invoices after the delivery of goods was publicly discussed in Poland many times during the 1970's. The opportunity to make payment so long after taking delivery of the goods relieved the American importer from the need to obtain from his banker short-term credit, which carried a very high interest. Some banks even kept special records on turnover in Poland's funds, and the profits accruing therefrom. Presumably only a narrow circle of people had an insight into the whole of Polish matters.

/3/ The financial gains by the foreign banks from these Polish funds were considerable, although the estimates by Poland's financial experts varied in this respect. The estimated average was several million dollars a year. The late transfer of funds to the Polish bank accounts was also partly the fault of the Polish banks. At the request of Bank Handlowy, American banks notified it of the transfer of funds by ordinary mail. Notification by telegram was applied only to sums along the order of tens of thousands of dollars. By ordinary mail, the notification process took some ten days

(to which should be added three days for handling once it reached the Polish bank), which means that during that period, the American bank still had access to the Polish funds.

At various times, notification by mail was more costly than by telegram, to say nothing of the losses caused by the waste of time. Some West European countries, e.g., Norway, Sweden or Luxembourg, which had much bigger money reserves than Poland, made notification by telegram if the amount was greater than 1000 dollars. Despite much deliberation, this situation has not changed in our bank. Bank Handlowy's requirement of notification by telegram of transfers greater than several tens of thousands of dollars was not based on economic considerations, but rather on inertia, old habits and the lack of an economic assessment of these labor-consuming banking operations.

The technique of Polish exports to the United States has been analyzed down to the minutest detail by U.S. trade and investment banks, insurance companies as well as commercial organizations. These assessments did not make the Polish side look good. They emphasized the weakness of Poland's Bank Handlowy with regard to its financial control over Polish exports to the United States. The financial assessments of cooperation with Poland, Polish banks and foreign trade enterprises prepared by American banks for their own use or at the request of various clients are hardly accessible to Poles, as banks consider them, for the most part, classified matter. Many such appraisals have been made by banking experts employed by foreign branches of American banks, e.g., in Britain, West Germany, France, Italy, Luxembourg and elsewhere. There have also been various appraisals of the situation in a given year as well as of the performance of Poland's financial institutions and Polish financiers engaged in contacts with foreign institutions.

Poland does not rate very well in the American daily press; this can be attributed to the unfriendly attitude of various political groups toward the Catholic faith of the Polish people. Banking experts do not share views and regard them as deliberate distortions of the picture of Poland by certain nationality groups enjoying wide influence in the press. Polish economists paid no heed to these negative stereotypes and do not write any articles for publication in the American press. Polish economists, especially those specializing in banking and finance practices, are little known in the United States.

It is also surprising that Poland has not established its own bank in the United States. Poland does not willingly cooperate with banks owned or run by emigre communities and therefore cannot facilitate their growth and development, despite the fact that these communities have been the source of considerable financial assistance to relatives in Poland. Almost all countries, both industrialized and developing ones, have their own banks in the U.S.; in the worst case they form joint banking ventures with American banks. The lack of a Polish or a Polish-American bank in the States has deprived Poland of considerable financial benefits, and allowed the commission from the settlement of the already huge Polish-American debt payments to be captured by foreign banks.

In the 1970's every condition existed for the establishment of such a bank, but the conservatism of banking dignitaries effectively stalled all such moves. Polish finance officials and especially the presidents of Bank Handlowy and Bank PKO are personally responsible for this state of affairs. The development of Polish-American trade in the 1970's was not matched by a similar development of Polish banking institutions in the United States that would be to Poland's advantage. It is estimated that Poland has been losing some 50 million dollars a year because there is no Polish bank based in the U.S. I trust that this obstacle will be removed in the 1980's and that certain financial profits will be derived from such cooperation.

U.S. press appraisals of the Polish economy in 1979 emphasized in particular Poland's foreign debt and the structural changes in the country. The debt was put at 20 billion dollars. The structural changes taking place in Poland's economy in the 1970's received a rather critical appraisal because the huge volume of investments financed by foreign credits did not increase Poland's export potential but rather diminished the country's balance-of-payments capability. This problem was also analyzed in detail by Western banks which employ reputable experts to study the affairs of socialist countries. The bankers' assessments revealed even then concern about Poland's ability to meet its financial obligations in view of the insufficient changes in the structure of Poland's economy and poor progress in reforming the economy.

The bankers' appraisals pointed to faults in the Polish financial system, its varying structure in individual branches of the economy and inconsistencies which have led to waste and low quality of products. Polish agriculture was considered backward. On the other hand, Poland received high marks for progress in the infrastructure attained after 1945, for its industrial potential and the large number of research and development institutions.

This appraisal is usually followed by an accurate analysis called "country risk." Such an analysis is prepared for a country's economic and financial authorities by groups of specialists under commission. The final conclusions are defined as the given country's risk indicator.

"Country risk" analyses are very expensive and are probably available to policy-making centers in Washington. A banking "country risk" analysis embraces the following:

- /1/ the country's main natural resources and their role in the country's overall exports, buyers of these resources, current prices and revenues, one-year and five-year price forecasts,
- /2/ the main branches of industry and the level of modernity, volume of export of industrial goods, demand for imported components and sources (i.e., countries from which these components are imported),
- /3/ exports and imports and pertinent development trends,

/4/ price forecasts of the main commodities exported and imported by the country in question,

/5/ the country's currency system and financial reserves,

/6/ the sources of funds used for financing economic development and especially huge investment projects,

/7/ the country's credit-worthiness, solvency, foreign obligations and their nature, debt repayment deadlines, appraisal of the rationality in using credits,

/8/ exporter's internal insurance (in Poland, only insurance for the duration of transport is applied; there is no insurance against political or economic risks);

/9/ the hard-currency revenues of the country from sources other than the export of commodities,

/10/ the debtor country's raw materials resources according to the U.S.'s and the given country's estimates.

This analysis concludes by defining the risk to repayment of obligations and specifying the possible directions and domains of cooperation between American companies and those of the country in question. The risk is defined by a figure; at the beginning of 1979, the risk for Poland was defined as "serious" [sic]. A country that receives such a rating may have to pay higher interest rates on the credits it obtains.

The attitude of many American bankers toward Polish problems is a friendly and helpful one, although sometimes it is an official attitude as well. These bankers were vividly interested in economic cooperation with Poland and in placing their capital or capital raised by them in this country. The crisis in Poland's economy deprives them of this willingness for the time being.

The slow decision-making process in Polish industry, the fact that sometimes Polish representatives are simply eager to take a trip to the U.S., the high frequency of organizational changes which end with a return to square one, can all create the impression that the foreign investor might lose his money. Foreign partners complain that Poland refuses them guarantees on their investment in this country and are surprised that Poland still does not have a New York branch of its own bank nor does it appreciate the importance of having one. If it did, it would have been possible to secure some cheap credits for Poland and to make a profit from the bank's own operations. The opening of a branch of a Polish bank in the United States would make it possible to handle money transfers to Poland and would protect Poland's financial interests in that market.

It is also necessary to examine the question of hard-currency bank accounts of Polish citizens and the level of interest on those deposits. It seems that not enough attention has been paid to this problem in the past. At a time when the country is using expensive foreign credits, every effort should be made to interest citizens in saving and keeping their hard currency in Polish banks; however, Polish banks do not appear to be interested at all in tapping this source of funds. The Bank Handlowy, which, despite its excellent facilities, accepts deposits from 8 to 12 A.M. instead of from 8 A.M. to 8 P.M.

The above financial phenomena certainly contains problems that will be difficult to solve; nevertheless, they should be kept in mind all the time and at the right moment, well-considered decisions should be made to bring benefits in Poland's interests.

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PROVINCIAL DAILY RATES IMPACT OF U.S. SANCTIONS

Gdansk GLOS WYBRZEZA in Polish 2 Aug 83 p 4

[Article by Andrzej Bujnicki: "How Much Do the U.S. Sanctions Cost Us?"]

[Text] In my article "Truth About the U.S. Economic Sanctions", published by GLOS WYBRZEZA last 29 July, I presented the restrictive policy of the American administration as well as the scope of the imposed sanctions, by means of which the U.S. President, Ronald Reagan, tried and is still trying to subordinate Poland to his will. The Reagan plan failed completely. In spite of the American pressure we have proved that we are solving Polish problems by ourselves, according to our reasons of state and to the interests of the Polish nation. However, the U.S. sanctions painfully affected our economy, disturbing greatly the functioning of many spheres of our life, and the results of that were and still are being felt by the whole Polish society.

The U.S. sanctions were felt most markedly and most painfully by Polish agriculture, particularly in stock production. Following the restrictions of the U.S. government and its allies we had to cut the import of the feed and ingredients for its production from 7.1 million metric tons in the fiscal year 1981-82 to 3.3 million metric tons in the fiscal year 1982-83. Consequently, the stock production decreased substantially. In 1982 for example, there were 340,000 metric tons less of poultry purchased for slaughter from farmers, 83,000 tons less of hogs, and 532 million eggs less than in the previous year. The declining tendency in stock production persists (shortage of fodder), and in 1983 the produce purchased by the state will be down by another dozen or so [anywhere from 11 to 19] percentage points. Consequently, it will be quite a long time before it is possible to do away with the meat ration-cards.

The U.S. sanctions affected also the Polish deep-sea fishery. Poland has been deprived of its fishing rights in U.S. territorial waters. Polish fishermen used to sell fish they caught there directly to American customers. Meanwhile, after imposition of the U.S. restrictions, the Polish fleet had to move to other fisheries. As a result, we lost last year about 200,000 metric tons of fish: the foreign exchange receipts decreased and there was less fish on the Polish tables.

As for the industry, most severely affected by the sanctions was the light industry. What bore fruits here was the withdrawal of most-favored-nation trading status. More than a half of the total worth of our exports to the United States has been subject to a considerable increase in tariffs, and Polish goods lost their competitive potential. One foreign trade company alone, Textilimpex, was forced to slash its exports to the United States by more than a half!

The economic sanctions affected also other industries: metallurgical and electric machine industries, building trade and production of building materials, etc. Our traditional American contractors, as if by magic, "lost" their interest in the cooperation with our country. So-called extra tariff barriers have been used against Poland, which affected products such as steel and metallurgic products, machines and electric equipment, ships, electronic products. These "extra tariff barriers" reduce our metallurgic and machine exports by an estimated 25-30 percent!

The point is however not only in our industry being deprived of possibilities to sell on western markets. Under the U.S. pressure, the COCOM [Coordinating Committee for Multilateral Exports Control] commission for coordination of technology transfer advised its members to suspend their sales of high technology to Poland. A similar embargo was also imposed by the United States, which included 17 basic groups of goods, such as computer technologies, strategic metals (vanadium, etc.), electrotechnical products (semiconductors and integrated circuits), aircraft and ship control equipment, etc. For the remaining groups of goods we have been included among the countries without preferences, which automatically raises various bureaucratic difficulties once you try to obtain import licenses, even in the categories of goods not falling under the embargo.

Suddenly and unexpectedly the United States deprived the Polish Airlines LOT its landing privileges in U.S. territory. Over 25,000 passengers who had purchased earlier return tickets for flights to the United States were stranded. We had to start emergency flights to Canada which caused the PLL LOT to sustain heavy financial losses. By the end of 1982 the civil aviation agreement between the United States and Poland expired, and the announced sanctions made it impossible to extend it. It was then necessary to stop the passenger flights between Warsaw and New York City, and to suspend charter flights.

As a part of the economic sanctions a boycott of Polish ships was also announced. Our fleet lost its customers, the transportation of bulk, general and container cargo shrank dramatically. In U.S. ports they refused to unload Polish agricultural planes, gliders, spare parts for machine tools and many other goods. These were returned to Poland and it was necessary to ship some of them back to the United States via Canada, which on the one hand raised the freight charges, and on the other caused the export companies to sustain heavy financial losses.

The sanctions affected not only aviation and shipping, but also road transport and railways. The Fiat company refused to sell us 200 T.I.R. trucks which made it impossible to develop international transportation services. The railways saw a considerable decline in passenger traffic to and from Poland, as well as

of transit traffic, which caused another loss of foreign exchange. Suspension of the supplies of spare parts for imported buses forced us to curtail drastically bus transportation in Poland.

The economic sanctions imposed on Poland by the United States and its allies resulted in a drop of the Polish exports to the West from \$7.5 billion in 1980 to \$5.2 billion in 1982. The current year, despite our highest export efforts, is unlikely to be better than the last one. It is true that many capitalistic countries are breaking loose from the American dictate, but restoring broken foreign trade ties is difficult and takes time. A \$2.3 billion drop in exports within only 2 years is an enormous loss for any country, and especially for one which is in such a difficult financial situation as we are. By the end of 1982 Polish foreign debt increased to \$2.6 billion, despite the fact that we did not borrow a penny. The debt grows larger from one year to another simply because of the interest which we can pay off only in part. But in this sphere we also feel the impact of the American actions: U.S. economic sanction stalled the negotiations on the rescheduling of our debt, and the overdue payments are imposed a usury!

The difficult, unsettled payment situation puts Poland in a particular position, especially that the sanctions effectively curtailed the exports of Polish goods. The little foreign exchange from a limited export has to be used to pay off the most urgent debts and a part of the interest. We have no funds and we cannot take new loans in order to import raw materials and components necessary for our economy, which makes it impossible to use our productive potential, and as a result there is a shortage of exportable goods. This is how the circle of the U.S. sanctions is completed.

In spite of such a dramatic situation we are getting along and slowly overcoming the crisis. We are looking for other outlets for our goods and we are scraping together foreign exchange. At the same time we are weighing scrupulously, as on a dispensing balance, our import needs. Many enterprises have already started an anti-import production. The Polish agriculture is also gaining independence, and it is estimated that by 1990 it will secure food self-sufficiency for our country.

Our friends also help us: the socialist countries give us loans and provide raw materials, components and spare parts. They secure also the foreign exchange input necessary for manufacturing machines and equipment.

Technical improvement of our economy, effectiveness of the economic reforms which are being implemented, and help from the countries of the socialist community, all this allows us to lessen the impact of U.S. economic sanctions. The defeat of the United States in the economic war with Poland, the small effectiveness of the adopted weapons, i.e. sanctions, discourage U.S. allies who are already beginning to back out of the imposed restrictions. In the United States itself there is a growing opposition to President Ronald Reagan's policy. The Polish crisis and the economic war were to weaken Poland and to throw her down on her knees, as well as to undermine considerably her participation in the socialist community. Meanwhile, the imposed sanctions strengthen Poland's cooperation with the socialist countries, and place her deeper in the CEMA.

But, on the whole, U.S. sanctions hit Poles hard. The meat and fish rations on our plates shrank, and at the turn of 1982 not every Polish child could have an egg. We have hard time meeting basic needs: not everybody can get clothes, shoes or even socks or tights. The responsibility for this state of affairs falls partially on the United States. We must say it clearly and unequivocally.

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MINISTER DISCUSSES FUTURE DEVELOPMENT OF AGRICULTURE

WIELKA RADA NARODOWA GOSPODARKA ADMINISTRACJA in Polish No 13, 27 Jun 83 pp 7-16

[Article by Stanislaw Zieba, Minister of Agriculture and Food Economy]

[Text] Economic reform, the changes occurring in the country's sociopolitical system and in the economics of agriculture, are basically modifying the range and the forms of action of the administrative organs and the cooperation of the Ministry of Agriculture and Food Economy with the local authorities. The outlines of these functions and joint action are already beginning to form. Still the nature of the necessary changes cannot yet be fully defined. Many areas continue to require effective interaction, on the central level as well as on the local one. Thus in our work we reconcile structural endeavors with indispensable efficient action, in accordance with economic and social needs.

General Aims and Assignments

The strategic aim of the activities of the Ministry of Agriculture and Food Economy and local organs of the state administration is to ensure the development of agriculture as a whole, to service it more efficiently and to develop the food industry. These efforts, in conformity with the state's social policy, are directed at the primary goal, which is to provide food for the steadily growing population while making the necessary progress in achieving self-sufficiency in food.

The limits of the tasks assigned to agriculture and the entire food economy were defined in the resolutions of the Ninth PZPR Congress and the joint plenum of the PZPR Central Committee and the ZSL (United Peasant Party) Chief Committee. These tasks are specified concretely in the "Government Timetable for the Implementation of the Provisions of the Joint Plenum", and the Sejm's Program for the Development of the Food Economy, which specifies broad tasks for the ministries, local authorities, state enterprises and cooperative organizations. These actions are to ensure favorable management conditions for all sectors, favorable economic conditions for the development of production, and improved working and living conditions for the farm population.

Taking the country's present socioeconomic situation into account and the desirable and possible ways in which it can be changed, the National Socioeconomic Plan prepared by the Sejm for 1983-1985, has assumed the following for agriculture and the food economy:

--An increase in total farm production amounting to 8.8-9.1 percent, including an increase of 7.6-9.2 percent in crop production and 9.7-10.3 percent in livestock production. The priority task is that of increasing crop production, and primarily grain, by increasing the yield from 26.1 quintals per hectare in 1982 to 28 quintals per hectare in 1985, while enlarging cropland areas only slightly.

--Grain harvests in 1985 were assumed to amount to 23 millions tons, and procurement to 6.0 million tons. The fulfillment of this assumption is to be facilitated by an improvement in grain crop yields through use of fertile varieties, better agro-engineering, and particularly by more efficient management of fertilizers and pesticides. Economic policy, through a system of prices, taxes and other instruments, will favor the development and intensification of crop production and a higher yield of marketable farm produce.

--An increase in industrial plant production is also envisaged, including the sugar-beets--to 840,000 tons and sugar beets, to 16 million tons. The fodder shortage has made it necessary to increase the production of potatoes, which will continue to be an important item in feeding hogs. It is envisaged that potato crops will amount to 64 million tons, and procurement will amount to 6.5 million tons.

The cultivation of papilionaceous crops will be especially important in the next few years.

The growth of farm production in the amounts projected in the National Socioeconomic Plan (SPSC) will, to a large degree, be dependent on the industrial means of production supplied to agriculture. The amount of fertilization in 1985 is to be 205 kilograms of nitrogen-phosphorous-potassium per hectare, which is a 14.5 percent increase over 1982. The projected structure of fertilization seems to be right. The share of nitrogen fertilizers in the overall deliveries is growing (in 1985 it is compared with 38 percent in 1982) and the share of potassium fertilizers is shrinking (in 1985 it is compared with 36 percent in 1982).

The effective use of lime and fertilizers by agriculture is a matter of primary importance. Fertilization effectiveness, and thus a growth in yield, depends in large measure on the culture of the soil and its reaction, i.e., on liming. The envisaged for 1985 deliveries of lime fertilizers, amounting to 2,750 thousand tons, are, however, 150,000 tons less than agriculture needs. Deliveries of pesticides will increase to 18,600 tons in 1985 in terms of active matter, i.e., by 14.1 percent. The effectiveness of pesticides will also be determined by the efficiency of the services provided by the Agricultural Circle's Cooperative (SKR), the Rural Grain Cooperative (HKB), and the work of the phytotoxicity services.

In 1985 deliveries of farm tractors, machines and tools will reach 90 billion zlotys, which is a 90 percent increase in comparison with 1982. There will also be more deliveries of spare parts, batteries and tires, the delivery of which is making proper use of equipment difficult.

Land reclamation and water supply to agriculture and the countryside are an important element in growth of agricultural production. For the years 1983-1985, the SPSC envisages reclamation of 400,000 hectares for crop cultivation, including

to the 600 hectares retained during 1981-1982. Land reclamation and supplying water to the countryside will account for the primary investments in agriculture. Rational conservation of equipment and pastureland management will be an important.

The main goal in livestock production is to achieve market production higher than previous years based on domestic fudder stocks and by improving the effectiveness with which these stocks are utilized.

- to 1985 production of slaughter livestock should amount to 4,770 thousand (10.1 percent more than in 1982); milk, 16.5 billion liters (11.5 percent more); eggs, 8.1 billion (9.2 percent more); freshwater fish, 40,000 tons (19.3 percent more).

Execution of these tasks will depend on (aside from further improving the reproduction of livestock, and also on better than heretofore utilization of livestock facilities and accommodations.

Instruments for Implementation of the Plan

- the system for managing the national economy is reformed, the instruments of economic instruments for implementing the plan (prices, taxes, subsidies, bank rates, and availability of production means) improved.

According with the accepted principle on the stabilization of farm prices, farm product procurement prices were revised this year commensurate with the increase in expenditures by farmers. This is linked also with the future revision of vegetable prices. Farm product procurement prices are established at a level which ensures profitability of production and take into account the growth of production in agriculture. By improving the economic system and economic-financial conditions, it will be possible for farm enterprises, and the technical facilities for agriculture and food processing to develop. It will then again be possible to ensure about biological progress, effective plant protection, development of livestock breeding, well-being, planned renewal of stock, and development of other branches.

Quality and production factors will be of decisive importance in development of production. However, the system of the state administration of all levels will play a major role in play here, especially in organizing production processes, technical modernization and in social services. Various objectives cannot be achieved and through administrative decisions, especially in the management of the economy with one another. Modern management requires not only good administrative system, but also a good, strong administration. This has been shown by the experience of the management of light industry, construction. But administration and management will be different now than they have been in the past. The administration must be drawn smoothly into the organization of production, the investment process, and farmers, the organization of the farm market, etc. Now, in developing a family system, as has frequently happened, family economic institutions will be able to produce goods.

Under the new conditions, the state of the economy will be different. The state should concentrate primarily on:

-the creation, by the appropriate economic organizational units and institutions, of a legal-administrative base for the organization of production processes and the market, territorial investment undertakings, and development of production and infrastructure.

-the stimulation of the desired, in a given area, directions for the development of production, in accordance with the country's needs and the specializations of the various regions, by making appropriate use of the powers and instruments of influence of the economic organizational units and institutions, and not by directly assigned tasks.

-the control of the conformity of the production and investment action taken by national units and organization with legal regulations,

-the stimulation of a community effort to implement important undertakings,

-the examination of the situation in agriculture, the efficiency with which the instruments of influence affect its development, the removal of obstacles, and the streamlining of changes in this area.

Consequently, the following must be done:

-a broad-based system must be established, by the institutions appointed to do so, for a rational turnover of land and correct fixing of priorities in this area,

-initiative and measures must be taken to improve the expenses of farm lands,

-tasks must be assigned and the reutilization of lands must be supervised, and (b) protection and the protection of the natural environment must be ensured,

-sanitation order, and appropriate architecture and territorial development of the countryside, must be ensured,

-communal construction must be initiated and raw materials derived from it must be utilized,

-land reclamation work must be initiated, on the proper scale, in suitable conditions and (or water) the discipline of operation of this equipment must be supervised and the communities' interests must be complied with,

-the development of production, availability of products and services, and the distribution of services, must be programmed and planned,

Regional Regional Specialization

Specialized production in the new system will require more distinct specialization in various regions, in accordance with the farming structure, the nature of the farm market, and the specializations of the processing industries. Such regions have been established in some fields, but not in others.

As far as the production of agricultural products is concerned, the specialization of the regions must also be in accordance with the production of agricultural products and also in the entire economy; it is a question of ensuring that the specialization and economic structure, if reduced to zero, has no effect on the production of infrastructure, services, etc. However, this new specialization is not

the development of agricultural work in rural areas, and the government will be important in the development of agriculture. It is the government's responsibility to coordinate the growth of the economy.

The primary form in which the people's economic and social life is organized is the village. The village is the basic unit of the economy and the social life of the people.

The government will support the regionalization of development and the decentralization of power. The government will assist in their implementation. The government will also support the development of the village and the decentralization of power.

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individuals. These matters will be covered in detail by the draft law now under discussion pertaining to people's councils and territorial self-government.

To all of the social and economic goals, including those relating to agriculture, are to be successfully implemented in this new postreform situation, effective principles governing the cooperation of the Ministry with local authorities must be applied.

In 1992 the provincial governors, as the founding organs, were assigned supervision over 1,115 state enterprises in the farm economy, farm construction and reconstruction enterprises, and farm technical services, previously supervised by the Ministry of Agriculture and Food Economy. By making them independent (as provided by reform) and at the same time eliminating the previously existing associations, the state administration organs on the provincial level became the founding organs for these units and also assumed the rights and the duties clearly defined by the law on a state enterprise. To a large degree the government decision which made it possible for governors and mayors of cities of province rank to expand the apparatus which would implement the new tasks, which authorized them to form boards (e.g., agricultural boards, construction boards, etc.), and enabled them to exercise supervision over the activities of the enterprises, also made it possible for the founding organs to carry out these rights and perform their duties in relation to the supervised enterprises.

But this kind of provincial supervision over the enterprises is not final and will be reorganized when the provisions of the new law, now being prepared, on people's councils and territorial self-government, goes into effect. If it is passed by the State, the organization structures of the provincial offices can be further perfected, and their work can be adapted to the new requirements of the reformed economy, and especially to the new situation which results from the granting of independence to the enterprises.

However, the local organs of state administration at the provincial level will not be able to cope with all the duties required by the enterprises being supervised, such as regarding establishing an economic-financial system or an incentive system, which are being prepared and then modified and perfected on the national economic scale, nor will they be able to properly consider the specific features and conditions of the operation of enterprises in the particular subsectors. The Ministry must continue to deal with these problems by cooperating closely with the administrative-economic system and the functional ministries on the one hand, and the administrative organs of the provincial level in relation to the enterprises they supervise on the other hand. The voluntary associations of enterprises supervised by the government can play a role here in solving these problems. These associations should, in serving the enterprises, develop drafts of optimal systems solutions, seek the opinions of the founding organs on these solutions, and transmit proposals and suggestions as to how these weighty problems regarding enterprises can be solved to the Ministry.

Cooperation with Local Authorities

In the development of agriculture and the food economy, close cooperation of the central administration with the local authorities affects a number of important problems, and in particular:

-development and modernization of agriculture and the entire farm-production sector,

-insurance that contracting for, and procurement of, farm products is prompt and efficient,

-better effectiveness of mineral fertilization and soil liming,

-maintenance of correct land management and protection of farm and forest lands against utilization for nonfarming use,

-improvement in seed production and plant cultivation,

-improvement in raising and reproduction,

-construction and operation of water-drainage equipment,

-water supply to agriculture and the countryside,

-expansion of small-scale processing industry based on local raw materials,

-development of agricultural education,

-improvement in efficiency of farm advisory services,

Such cooperation must assure implementation of the central plan, which is also one of the primary duties of the organs of state administration. Coordination of the central plan with the enterprise plans requires correct and rapid flow of information between the units at different levels which are developing the plans and participating in their implementation. Local state administration organs should have advance information on economic policy forecasts and plans, anticipated economic instruments, availability of means of production and pesticides. Similar signalling information on threats to the implementation of plans is indispensable to the central organs in order that they may make appropriate decisions as to choice of correct instruments of economic interaction, or, in necessary cases, instruments of administrative intervention. An efficient flow of information in both directions is the basis of control in all fields of agriculture and the food economy.

Guided by the need to provide appropriate sources of information, the Ministry organizes regular meetings with local authorities. Management members of the Ministry travel to particular provinces where the production situation is especially interesting and the Ministry's decisions and the plans of the local state administration are being implemented. The Ministry members also take part in the meetings of the provincial people's councils.

Another method of obtaining information is participation in various forms of inspection being conducted in the area, and inspections by the ministries themselves.

In 1982, to improve the flow of information, publication of a ministerial "Vestnik" was begun, which the political and administrative authorities of the provinces receive.

It contains, for example, recommendations for the local administration regarding the current situation in agriculture; it defines the courses of action essential to the implementation of farm policy; it discusses the Council of Ministers' resolutions pertaining to agriculture; it reports on how far economic reform has progressed in the Ministry and on its complications; it publishes current Ministry directives.

However, the system of statistical information needs more work. A full concept as to the range, type and amount of basic information which the units of the socialized economy should send to its supervising state administration organs has not yet been developed.

It is rightly assumed that the state administration organs will base their decisions on the statistical studies of the Main Statistical Office (GUS) and its local offices. This type of information is an ex post solution: it does not contain the lead time necessary for efficient control, especially when implementation is threatened. Nor has the scope of the statistical data supplied by studies made by specific state administration organs (aside from GUS) been established. Work in this area is still going on.

Main Courses of Action

Without waiting for statutory legal settlement of a number of problems, the Ministry of Agriculture and Food Economy, in order to implement NPSG tasks for 1983-1985 and to perform the difficult assignments for the current year, is increasing its cooperation with the local state administration organs, particularly on matters concerning:

****Correct land management and protection of croplands, to ensure agricultural use of farmlands.** We must jointly continue to improve the principles and forms of sale of land, by expanding supervision over specialized institutions in this area, and also, create joint administrative opposition to all uses of high-quality lands for other than agriculture.

****Development of crop production and procurement, including:**

--increasing domestic fodder production through increased crop yields and larger sowing surfaces. Because the orders-distribution methods used in the past did not bring the desired results in this area, we must test the economic instruments and increase our pressure on the institutions which are neglecting their work here.

--proper management of mineral fertilizers and fertilizing lime by making periodic estimations of the availability of mineral fertilizers to farming, especially during the most important agro-technical periods (spring and fall) and in cases of natural disasters, taking into account additional allocations from reserve stocks, and also developing a rational distribution of lime and lime-magnesium fertilizers, and giving consideration to making larger deliveries to those provinces with the greatest need and also a low level of consumption.

--effective utilization of pesticides which are in short supply, particularly by making preparation to those cultivations that are economically important; correct selection of pesticides in relation to soil and climate conditions; and application in critical phases of plant development.

22) Improvement of livestock production and procurement, where the important plane of cooperation with local state administration organs lies in the organizing of transfers of livestock, supervision over profitability of commercial feedstuffs and their procurement, prices of sales, in accordance with established rights, and also, rectification of discipline, which in recent years has become seriously neglected, particularly in livestock raising. Another important field of cooperation is that of improving the system of contracting for farm products, and especially influencing both parties concluding an agreement so that implementation of the contract is in accordance with the predispositions of the area and the overall-social interests.

23) Land reclamation and improvement in water supplies to agriculture and the countryside. The Ministry and local state administration organs should make sure that land reclamation and supply of water to agriculture and the rural areas are the priority direction of investment. Insufficient water in livestock production is one of the causes of low production. It is essential that new, relevant, land-reclamation investment plans be developed in every province, and that the production capacity of enterprises be expanded. Discipline in using land reclamation, conservation, and water company equipment is also an important problem.

24) Improvement in commodity turnovers, where the important plane of cooperation with local state administration organs lies in the organizing of transfers of commodities covered by the central control system and supervision over the implementation of tasks in this area.

New Land and Financial Principles

In 1984 a new land tax will go into effect. This is a difficult economic-financial operation, and it is also an important area in the shaping of socio-political relations. Both the Ministry and the local authorities are interested in conducting tax reform efficiently, in using tax instruments to improve the economic situation of the farms, to improve land utilization, to perfect the farm modernization system, and to create an infrastructure for agriculture and the countryside.

The tax rules will be submitted to public opinion. This should be the beginning of the explanatory work in connection with this operation. We are entering initial period of preparation during which we must determine the size of the tax base, which is designed to ensure a fair distribution of the burden on both the farms and the economy, which is of extreme significance in shaping the economies of farming, for the provinces of the regions. This important operation cannot be efficiently conducted without the active work of the appropriate people's council's commissions. The new tax should help to increase production through an amortization system. Getting this system into effect correctly is just as important as deriving the results of the tax. This is in the interest of agriculture, for it determines the acceptance of the new tax by the farm community.

A change in the system of financing agriculture is having a great effect on the budget, by reducing traditional subsidies for production; and on the other hand, it is increasing the need to maintain farm services, to finance agricultural progress, education, people's health protection, and special services.

This budget reorientation is not taking place without difficulties and setbacks, but it is understandable considering the scale of the changes, but they must be kept in

minium. This means that the financial and economic sections of the farm administrations must be strengthened and that the management of the administration at all levels must give more attention to these matters, to the universal understanding of the priority of the needs of agriculture.

I believe that in these matters not only the considered work of the administrative services is necessary, but all the conceptual-control activity of the people's council commission. There are many signals showing that the budgetary needs of agriculture and farm education are given second-grade treatment, that there are little known in the financing of economic activities and special services which are of primary importance for production, that there are difficulties in financing education and disseminating advancements.

Many new regulations and laws pertaining to agriculture have appeared recently. They are the product of the cooperation of the Ministry with the local authorities. On the whole, this is proceeding well, considering the rate and scope of enactment of the law. Unfortunately, the assessment of the application of the new law is less favorable. This is proven by the results of inspections, many complaints and appeals directed to the Ministry and the central institutions. Therefore, we must give more care and attention to familiarizing all services with the essence of the new regulations, improve the work methods of the administration, and supervise the application of the law. We must also more attentively note and examine the relevance of the changes being made, and propose and initiate the indispensable future amendments and revisions.

Advisory Services and Cadres

At the same time that we improve administrative activity, we must improve the advisory services. Without up-to-date advice there can be no real agricultural progress. We have made many efforts to modernize the advisory services and improve their work efficiency. But this is the beginning of the road. The difficult task of raising the position of advisors to the appropriate level in the management structure is still ahead of us--entry into the advisory services of the agricultural self-government.

A good adviser must be close to the farmer and must be backed up by not in title but by an experimental field, a training center, a chemical crop protection station, and a scientific institute. He must exclusively advise, teach, prompt, help, and assist in the organizing of a farm or production. But he cannot order anyone or anything, anywhere. That is the direction of the changes taking place. The advisory services are an important instrument in the state's influence on rural life, not also on the local administration and authorities. But it is an indirect influence--through and indirect reaction, and not by way of decisions or instructions. The advisory service cannot be a substitute for the statutory functions of the local administration: supply agriculture with goods, and which is the procuring, which often is still the main task.

The local authorities, having the progressive centers and the advisory services, must immediately define their concrete tasks, evaluate work methods, manage the reaction to reactions, and coordinate the work of the various services.

Ministry, in contact with the local provincial authorities, and the advisory services, assist in strengthening the cadres themselves over their work, and insist on their own on the advisers' working conditions.

The rapid and dynamic changes in systems of operation, as well as in the need for greater cooperation by administration employees at all levels, increases. We are trying to meet this need by seeking new forms of the extension, in addition to the traditional and too-frequent consultation. Specialized cadre improvement programs come to the forefront here, the seminars, the study groups, the problem seminars, comprehensive examinations of the cadres, and the development of experimental and advisory activities. We must expand these functions in the Ministry's work, and see the need to satisfactorily reform these activities.

Not only bringing ourselves in touch with improving the administration's work, but also, we see the need to reduce employment in the administration. The constant improvement of the quality of the cadre. In many services this employment is excessive, and this comes from the takeover by the administration of tasks of other institutions, particularly in the area of production, the parent, and the state. Yet employment is too low in the area of applying agricultural science, the production of the functions of planning and control.

The work of administration reform must mean a change in the administrative services, taking into account a change in administrative relations. We must work with the Ministry and the provincial authorities and the unions. We must increase the expansion of employment in the administration services. We must have more cadres, in which the administrative service is not at all fully represented. The administrative services has grown to a level equivalent to the administrative services before reform went into effect.

EFFECTS OF REFORM ON STATE FARMS EVALUATED

(General Evaluation)

Warsaw NOWE DROGI in Polish No 4, Apr 83 pp 137-146

[Article by Ryszard Cholewa and Janusz Czyz: "Effects of Reform on State Farms"]

[Text] The economic reform under implementation on state farms which started 1 July 1981, has attracted wide interest. Its appraisal in the first year of implementation attracted attention of the scientific circles, state farm economists and managers as well as the press. Wide attention accorded to the reform should be primarily attributed to the fact that the state farm reform preceded the reform of the country's entire economy and was therefore treated as a pilot project. Another reason behind this wide attention is the importance of state farms as a food producer and a supplier of agricultural produce on the food market; the implemented reform was supposed to improve their comparatively low management efficiency levels. The state farm reform became also a test to check how--under conditions of parity or equal treatment--all sectors of the agricultural economy responded to efficiency-promoting reform measures and what was their final effect.

The Polish Academy of Sciences Institute of Agricultural Economics sponsored a conference (25 May 82) devoted to matters connected with the implementation of the reform. Among other suggestions and postulates, consideration was given to the following problems: a need for providing farms with a "foreground" of financial management; little effective mechanisms of workers and managements' motivation; necessity of using diverse economic and legal tools varying with sectors and types of the farming economy; continued availability of biological progress; regulation of capital investment financing; adjustment of the structure and technology of large commercial farms to their actual operative conditions. The conference emphasized the reform's beneficial effects in restructuring production and promoting decisionmaking at the level of individual state farms.

State farm reforms provided also a topic for a conference sponsored by the Institute of Agricultural Policy Making attached to WSNS (28 May 81); the conference was preceded by opinion polls and consultation at the state farm level. The papers offered for the conference and discussion that followed cautioned against blaming on the reforms what were the negative effects of previous years' management and enforced capital investment, financial

institutions which were higher for state farms than for other sectors of agriculture, irregularities of their system of wages and salaries, delays in implementation of the new system, and the persistent tendency to make decisions from the outside. At the same time, the conference pointed out the importance of many incorrect economic relations in need of a systemic regulation. It was stressed that despite the positive results already achieved, the budget year ending 30 June should be expected to close with a loss.

The above conclusions were consistent with the results of the analysis conducted by the Institute of Agricultural Economics in 70 million rubles state farms. The questionnaire results indicated that state farms operating at a loss were 10 times in number and pointed to the conditions threatening the economic functioning of its initial introductory phase of implementation. The results of its studies altogether (Article by S. Eschke and I. Vlodavskii, "The first step into independence," ZHURNAL SOTSIALIZMA 30 May 82).

However, these conclusions were not confirmed in practice. The conference was in addition convinced in a radical improvement of the state farms' financial situation as compared to the forecasts. The summer year 1981/82 closed the state farms with a profit of 28.1 billion rubles, as compared to a loss of 10 billion along loss from previous year.

The conference brought about this new situation reached almost 10 years after the introduction of manipulative measures based on creating a false picture of the state farms' improvements. Critics drew attention in particular to the fact that by creating a marked transitional improvement of the financial results in the budget year 1981/82, they were responsible for a heavy burden on the state farm workers that they could share in profits who were still implementing Article by P. Florin, "A last chance," PRITVOR 14 November 82). In supporting these decisions, it was also indicated that they were contrary to the very principle of the reform, being as they were directed to management and administration they brought about excessive inflation in the state farms' financial condition the long-term effects of the adopted solutions in the summer year (Article by R. Mavroff, "Reform is not playing games," ZHURNAL SOTSIALIZMA 18 November 82).

The conference was also characterized by a significant deterioration of the state farms' financial situation in 1981/82, as compared to the previous year. The conference was also characterized by a number of other important conclusions. The first of them was the fact that the state farms' financial situation in 1981/82 was not as good as it was in 1980/81. The second conclusion, included, was a clear opinion, stating that the conference was not a success. The third conclusion was an argument in support of the adopted solutions. The fourth was the fact that the results of improved management and administration of the state farms' operations in various forms of state farms' financial situation in 1981/82 were not as good as they were in 1980/81. It was noted that the conference was not a success because of the temporary nature of the results achieved in the state farms' financial situation in 1981/82.

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These diverse opinions required a close study of the financial outcome of fiscal year 1981/82 as well as the adopted systemic solutions. It is also deemed necessary to reconsider the topic and approach to the state farm reform once more in view of the negative forecasts as to the financial outcome of the farms for the current fiscal year. The financial and economic plans for the year 1982/83 turned in by farms to their financing banks assumed that next year's financial results, especially those of economically weaker units, would worsen considerably.

State farms' financial outcomes, which also used to deteriorate from year to year in the past, should not be viewed exclusively through the prism of what was happening within the farms. Their financial outcomes are also affected to a marked degree by factors independent of the farms, and occurring outside them.

One should attempt a comprehensive review of solutions and measures affecting production results and financial outcomes as well as the conditions of their operation.

During the 5-year period preceding the reform their binding economic and financial system was continuously undergoing changes and modifications. In operation, state farms parted with the systemic principles, with a resultant random application of reform instruments and favoring an increasingly command-type system of management. Systemic solutions were replaced by the impositions of limitations and handouts; a number of incentives were directed one-sidedly into selected narrow production areas. A tendency towards increasingly command-type management was paralleled by increasing centralization in management and amalgamation of farms. What was intended as an experimental organization of agricultural units deteriorated into an almost universal administratively enforced organizational form. The number of amalgamated state farms was ever-growing.

The financial outcomes achieved by state farms grew worse and worse. The previous 5-year period opened for state farms with a profit of 19.4 billion zlotys and closed with a loss of 20.5 billion zlotys in the fiscal year of 1980/81.

From among a host of reasons accounting for this state of affairs one should primarily stress the faulty structure of production, worsening economic efficiency, and an insufficient supply of means of production.

The agricultural productivity of the state farms was shaped by continuous, pressing demands to increase their livestock production. As a result of this enforced structure of production, there developed a strong imbalance between crop yields and livestock yields. Assuming the total crop and livestock yield in 1970 as 100, the following indices were obtained for the last years of the two consecutive 5-year periods.

Year	Crop yield	Livestock yield
1975	124.9	172.1
1980	119.2	195.5

The disparity between crop and livestock yields was very at first aimed at raising them for agriculture as a whole. One of the reasons behind this policy was that the policy was to compensate a decline in livestock yields in the private farming sector by increasing yields in state farms. In consequence, the state farms were forced to purchase and breed increased number of piglets and calves. This high livestock increase ratio increased on state farms was completely divorced from any real possibility of increasing their output of their fodder production; this, in turn, led to an increase in fodder purchases. Likewise, the farms did not have sufficient facilities for the increased livestock and were forced to keep them in provisional, expensive quarters. This could not but negatively affect their livestock production efficiency.

The failure of measures undertaken to boost many crop yields in private farms and their purchases under the government purchase-guaranteed policy, especially those of commercial crops, was compensated by imposing an increased production quota on the state farms. While imposing increased productivity demands, no account was taken of the fact that many of these crops required some agro-engineering preparation, special equipment and other means of production; in consequence, crop output efficiency was poor.

The state farms attained their best growth rate and top yields per hectare of arable land in total gross outputs and commercial crop outputs, with the lowest yields in total net production and absolute outputs.

The high total gross outputs resulted mainly from high investments in agricultural means of production, especially in fodder, seed and livestock for further raising. The value of these means of production as expressed in percentages of total net outputs amounted for 1976-80 to an average of 23 percent for agriculture as a whole and 38 percent for state farms.

The low levels of absolute output were based on high material investments. Their low efficiency was due to production being dependent on purchases of agricultural produce. A zloty worth of materials and services purchased brought about outputs in commercial commodities worth 1.5 zloty in 1971-75, and 1.4 zloty in 1976-80.

Also in the period 1971-75 the level of absolute production per hectare of arable area in the state farms amounted to 52.5 percent of that attained in the individual sector, it rose up to 54 percent in 1974, 46.6 percent in 1975 and 44.7 percent in 1976 to enter the period of sharp decline later: 37.1 percent in 1978, 19.9 percent in 1979 and 16.5 percent in 1980.

In spite of the gradual improvement of management efficiency in state farms, we had a serious deterioration and deregulation of their programs. At the same time, in 1976-80 state farms yielded average annual outputs in commercial production per hectare of arable land worthy of 29,900 zloty (total price) as compared to 17,500 zloty average outputs in agriculture as a whole and 16,500 zloty outputs in the private sector. In 1980, state farms accounted for 93 percent of the government's compulsory purchases in commercial production. Their share in the government's commercial agricultural purchases

(in total output) was 21.8 percent and therefore it was markedly lower than their share in the country's entire stable average. In overall composition of agricultural produce, state farms accounted for 28.8 percent, or 7.1 percent in overall grain output and 11.9 percent in livestock output.

In sum up, the situation of the state farms in the initial stage of introducing the new economic system was as follows: they had a major share in commercial agricultural (meaning crops and livestock) output and, in consequence, a major impact on market supplies, but at the same time yields were comparatively low and efficiency was poor. This situation implied the need to adopt certain solutions that would effectively improve management efficiency and further increase output.

It has been mentioned above that the state farms closed their accounts in 1990, presenting the introduction of the reform with a high loss. All in all, 96 percent of state farms ran a loss. Losses accumulated over the nearly 1990 set made up, and despite binding regulations to this effect the farms received no budget grants. In this situation, their bank debts in credit loans which, due to high losses, displayed a tendency to increase over a number of years, jumped from 17.4 billion zlotys in 1989/90 to 21.1 billion zlotys at the end of the first fiscal year. The debt in working capital credits increased 18 percent over the period (up to 11.5 billion zlotys) and the debt in investment credits was about 19 percent higher (and increased up to 99.1 billion zlotys).

This disadvantageous financial situation for state farms which was due, among other reasons, from a failure to implement consistently previous systemic regulations, was superimposed on the operative principle under the changed conditions. The new operative system was burdened with the results of the former malfunctioning system. The result was that state farms, at the moment they embarked on the reform, underwent a particularly difficult period which could not but affect their performance. Curiously enough, they were expected, while embarking on the new system of operation, to pay back their immense debts that had accumulated over previous years, and to finance their current expenses and further development. What the real possibilities were of attaining such financial capabilities was omitted from consideration. Moreover, their high bank debts limited their credit opportunities.

There is a consensus of opinion that one of the basic reasons behind the low efficiency of production was the faulty enforced structuring of production and improper organizational measures. Therefore, their embarking on the new economic system required certain indispensable modifications in the production structure, and in agriculture this cannot be accomplished overnight. The structure of production in the economic year 1991/92 was to a marked degree affected by the preceding period. During the first year of reform operation, state farms had very limited opportunities for maneuvering in this respect. For all practical purposes, all they could do was to take some action towards achieving this indispensable modification and rationalization of production in the years to come.

Therefore, it seems unfortunate that the fiscal year 1991/92 for state farms was not treated as an intermediary year, preceding the complete implementation

the 1970s, although the land reform was introduced in 1955, the state was still having the financial obligation of the farms. The most important measures were:

introducing new conditions for investment credit (investment in construction, which their production and service is additive to their current income situation);

lowering interest rates on credit payments (interest on the balance of 10% reduced to 5%);

maintaining 8 percent credit interest on investment credits granted after 1970 at interest rates (8 percent);

extending the maximum payment deadline for investment credits granted prior to the implementation date of the new system;

issuing new low-interest credits to cover temporary losses and to cover amounts written off for the social and bonus fund;

suspension of payments combined with interest reductions (down to 1-2% rate) in investment credits granted for constructed units (buildings) not in use;

suspension of payment on other investment credits for 5 years in cases when their payment would put farms under undue burden.

In many cases the above measures temporarily relieved the farms' financial difficulties. However, they could not affect the principle of unbalancedness in state farms to any large extent. Being temporary measures, neither did they resolve the financial problems in the long run.

Apart from the financial situation affecting the performance of state farms, attention should be paid to other factors determining the results achieved by the farms. The intention behind the new system was, among other things, to achieve parity of all sectors of the rural economy as far as their conditions of operation were concerned. In practice, this aim was not achieved. If prices for purchasers of agricultural produce, and also for the entire farming economy, decide their incomes, the same principle should hold for their liabilities. It is not fair if, on the one hand, we have prices which are calculated to account for individual farmers' liabilities and, on the other hand, state farms are burdened with liabilities on a par with those in nonagricultural industrial enterprises. Consequently financial liabilities higher than those in other non-socialized sectors of the farming economy a gap arises between the farms' income and expenditures, and this puts state farms at a disadvantage.

These extra liabilities included taxation on the level of wages and salaries, subscriptions to ZSS (Social Security Enterprise), social welfare contributions, etc. The difference in liabilities between state farms and individual farmers on these accounts were quite considerable. As calculated per hectare of arable area, the expenditures of state farms were twice as much compared to what was paid by individual farmers.

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with a total of 14.1 billion roubles, compared with 13.5 billion roubles in 1987. This was accompanied by some 40 billion roubles and at the same time 100 million roubles in government bonds. These figures indicate a further 20 per cent increase.

A detailed analysis of the efforts of state farm management indicated that the 1988 profit was accompanied by a decline in the financial standing of profit-making state farms and a deterioration in debt-repaying farms (colleges). By 1988, 10 per cent of state farms closed their year with a loss amounting to 7 billion roubles. The farmers behind this situation could be blamed for the absence of hard solutions and an inconsistent policy applied with regard to reforming.

These figures do not hold for state farms' productivity operations. Such a measure to the end of 1988 was a rule correct and consistent with the directions of the reform. This point of view is also supported by the results of the survey conducted by the Institute of the Agr. (1988). The survey, conducted by the Institute of Agricultural Policy, showed that the state farms' productivity operations, and especially the productivity of the state farms, is evidence of the national productivity. The productivity of the state farms, and especially the productivity of the state farms, is evidence of the national productivity. The productivity of the state farms, and especially the productivity of the state farms, is evidence of the national productivity.

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It appears that, with 1 year of operation under the new economic system, that those state farms should embark on a full economic system only during the second year of year. It is therefore necessary to see to it that conditions are created to make it possible for them to implement the reform's functions.

The basic task in this respect is to stimulate the state farms' productivity. It is also acknowledged to be the basic, positive outcome of the reform. It is also acknowledged to be the basic, positive outcome of the reform. It is also acknowledged to be the basic, positive outcome of the reform. It is also acknowledged to be the basic, positive outcome of the reform. It is also acknowledged to be the basic, positive outcome of the reform.

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state farms, in the treatment of state farms as one of several agricultural units, on a par with other sectors, the same principle should be applied to the whole economy. The present situation, where state farms are burdened with the same kind of obligations and liabilities as for non-agricultural enterprises, is not acceptable and negatively affects their performance. Their liabilities should be accounted for in the price system for government purchases, and should be as income and unfavorable to their financial status.

State farms should be given more freedom and relieved from financial restrictions when it comes to selling their produce. In their large-scale business activities, they should be freed from the obligation to use government purchasing agencies as their intermediaries. They should have the right to sell directly to the buyer, increasing their income thereby by an amount corresponding to a percentage of the commissions realized by purchasing agencies. In addition, operating at lower costs, state farms should have the right to establish favorable contractual conditions when negotiating with buyers.

Another question to be resolved once again is the profitability of farming on state farms where soil and climatic conditions are particularly difficult. The government should be authorized to state farms but concerns the entire country. The government should be authorized to state farms but concerns the entire country.

and other commercial enterprises and organizations. The government should be authorized to state farms but concerns the entire country. The government should be authorized to state farms but concerns the entire country.

Another point, already mentioned, is the financial status of state farms. The government should be authorized to state farms but concerns the entire country. The government should be authorized to state farms but concerns the entire country.

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bles, tend to overshadow the fact that many a peasant family lives on a very moderate income indeed. Farmers' incomes are in fact very differentiated and lately one hears more and more frequently about the countryside's progressing class stratification.

The phenomenon did not leave the socialized sector of the farming economy intact.... Apart from the prosperous State farms, we have farms which find it difficult to make the ends meet. The reform merely brought these differences in relief.

On the Northern Desert and on the Foothills

For 25 percent of state farms, fiscal year 1981/82 (in agriculture nature is in charge of the calendar) closed with a loss, and 25 percent means around 300 farms.

It seems worthwhile to check the geographic position of these deficit running farms. Almost all of them (over 90 percent) are situated in the country's northern or northeastern regions or its mountainous area. These regions are characterized by long winters (when more fodder is needed) and brief growing seasons, poor soils and disadvantageous locations, conditions not favorable to farming.

Farmers, including individual farmers (of whom we wrote before) expect that the new tax system under preparation will account at least partly for their soil and climate difficulties. But they do not seem to expect too much.

Not an Equal Start

State farms were the first to start on the reformed course, already on 1 July 1981. This June will mark the second complete economic year under the conditions of three "S's." All in all, it is surmised that state farms grew to accept the fact that they operate on their own, without state subsidies, but there are still several questions awaiting resolution.

"The reform favors the rich, and this is its principal fallacy. Our state farms used to run on a deficit and they continue to do so," said Mical Szewczyk, deputy director of the Agricultural Department of the Voivodship Office in Jelenia Gora. "The Rakowice combine is threatened with a default. We could tell it to default, but then what?"

We heard almost the same words from Tadeusz Bucko, director of the Department of Agriculture in the Voivodship Office in Suwaki.

Land needs to be cultivated. In regions characterized by difficult farming conditions (Jelenia Gora Voivodship is one of those) farmers are not waging wars one with another as to where their border runs. Hectares are waiting for them in the State Land Fund. So should one enterprise be cancelled merely to have another organized a moment later?

State farms did not have an equal start with the reform. Some farms embarked on the reform endowed with, for instance, an orchard measuring hundreds of hectares. And prices for fruit are not rigid.... Some farms embarked on the reform with an immense debt from investments, not necessarily always profit making. There are empty, poorly-designed or poorly-executed barns and pig sties. There are abandoned projects.... At Rakowice, they overlooked their fodder possibilities. At Gorne Pluczki a sheep farm was located on the marsh-land and high humidity is killing sheep....

We Have to Help Them!

To put a farm on auction does not resolve anything. Land stands in need of farmers. Therefore, we have to make every effort to help farmers "stand on their feet," we are told by Edward Debecki, director of the State Farms Association.

We will have to wait until we get a new and fair tax system. What we have at our disposal now are summary solutions.

Generally speaking, rich farms will help poor farms. They will not come to their assistance directly, but by properly designed contributions paid to the Social Security Enterprise or subscriptions to the Professional Activization Fund.

The farms burdened with debts are in the most difficult situation. Negotiations are in progress to have their payments on investment credits and on interest suspended for 5 years.

"In accordance with a decision reached by the Presidium of the Council of Ministers together with banks, we are planning to rid the farms of their debts incurred some time ago, prior to the reform, and hope to achieve this by the end of June; to rid them of their debts due on suspended or discontinued investments," says Director Debecki. "In case of discontinued investments, they should be extinguished. Those incurred in connection with withheld investments should be withheld for a certain period."

It looks like a big relief. But would it not become a comfortable way out for the inefficient and the dishonest?

A call to clear the foreground to facilitate a correct start is universal. And then weak farms are expected to sail their independent course with the compass of the three "S" reform for a guide.

The minister of agriculture keeps worrying how to replenish his grain stores. Grain is needed to bake bread. Last year, the Jelenia Gora Voivodship was the first to fulfill their quota of the governmental grain purchases. Grain came primarily from state farms, the same farms which are threatened with a default.

Individual farmers sell their crops to whom they please (for instance, on the market to get a higher price). Contrary to their interest, state farms have to stand by the state prices and state deadlines. And then a loss is easy to incur....

BILIC DISCUSSES ECONOMY, PARTY, PRESS

Zagreb VJESNIK in Serbo-Croatian 27 Jul 83 pp 1, 5

[Interview with Jure Bilic, member of the Presidium of the LCY Central Committee, by Joza Vlahovic; place and time not indicated]

[Text] "Only if we perceive the causes that have led us to the present situation can we see the chances to escape from our great current difficulties," Says Jure Bilic.

In recent conversations with VJESNIK commentator Joze Vlahovic, condensed to a single newspaper page of text authorized by the interviewed public figure, Jure Bilic answered key questions relating to the present situation in the League of Communists, the weaknesses in our ranks as Yugoslavs, new credits, who will pay for them and what they mean, speculations from which some can extract benefit and others cannot, the need for joint efforts on programs that provide for the future, the fear of threats to socialism, old perceptions and even remnants of Stalinism and dogmatism in our heads, business risk and crime, the lack of social tranquillity, the need for instituting iron discipline relative to work and moral values, fighters and "watchers," and even the fate of journalists and attempts to cast doubt on everything, including the LCY and Tito.

[Question] If you agree, Comrade Bilic, we would begin without dallying, with a question being asked today by perhaps millions of Yugoslavs, even including us ourselves. We are enduring difficult times both as a country and as a movement and a system of socialist self-management. Now it is clear that we are passing through serious tests. How can we escape from this situation? What are our real chances, and where do we find them?

[Answer] Probably many people are asking that, the entire world is probably interested in knowing. Yet to perceive what kind of chances and where to locate them, in order to get out of our present great difficulties, we will need years. I think that first we will have to determine exactly how we got into this situation, how all these things came to be. But that

It is not easy to perceive, there are still various opinions about those things. To a degree, that is only logical. In Yugoslavia, there are different situations and levels of development in various sociopolitical communities, organizations of associated labor (OUR) and economic branches, as well as different regions and locales. Consequently, the people of those various audiences evaluate things differently and behave differently today, and probably will do the same in the future. One's position has a direct effect in forming one's point of view.

How did we get into this situation? It is my deep conviction that our latest 5-year plans were improperly approved, they were overambitious in their quantities and in their structure and attempted to achieve it all in too short a time. I think that opinion is maturing with a majority of people in the society. That is one thing. They were not only plans of wishes, but more than that. They were based on illusions, and at times they were pure fantasies. Yet we know that social instruments, including economic policy itself, were actually subordinated to such megalomaniac plans. That is the second thing. In addition to all that, such plans unavoidably were starved for resources and opened enormous appetites for foreign debts. For example, from 1975 to 1983 we received \$28 billion in credits and income from Yugoslav citizens abroad, and our own accumulation equalled that. With it we built modern means for production and advanced the social and personal standard of living, but productivity remained essentially the same. Thus those resources were poorly utilized. That means that although a great deal of good was accomplished, are we able to behave in the same manner in the future? That is the first lesson!

[Question] So as to talk in other than generalities, could you say something more specific, with examples?

[Answer] I can. I wish to tell you something more definite based on the example of Croatia. It attempted several major ventures in the last two plans which are actually very hard to support. Two refineries increased their capacities by 8 million tons, and there were hopes to build two additional refineries in Yugoslavia. A pipeline was built, a synthetic fertilizer plant at Kutina, aromatic chemical plant in Sisak, a petrochemical plant on Krk, along with explorations for crude oil. That petroleum complex of the INA enterprise alone has a convertible currency debt of about \$1.8 billion of the total \$3.2 or \$3.3 billion indebtedness of the whole republic!

How can that be repaid, and who can repay it? According to our system, it would be normal for those who made the investment to return the loan. But they are unable to do so, because they cannot export their goods, or may not export them in large part. Previously they had to make annual payments and interest, so they borrowed from the bank for those payments, and thus the debt got larger. Besides the INA complex, we have other energy producers with substantial debts, such as the nuclear power plant. And since we cannot export energy, because we do not have enough for our own needs, someone will have to pay those debts.

Third, and not to mention such things as the unfortunate Obrovac experience, we chose to develop an extensive infrastructure, with superhighways and connecting roads, as well as the railroad and its modernization, and none of those undertakings provide significant foreign-exchange income.

Those three items alone account for more than 85 percent of Croatia's debts. All of those obligations have financed only 27 installations. Something more or less similar has happened throughout Yugoslavia. Much has been built, and they are major capital investments involving large components of foreign credit. Yet those large installations are not capable, or are not yet capable, of giving production that can be exported; frequently they are not even oriented toward exports.

For some 10 years, Croatia in particular has suffered from the illusion that it will make up for all those foreign-exchange expenditures by nongoods income earned through tourism, transportation and workers contributions. Others have also hoped for that. For that reason, neither Croatia nor Yugoslav industry as a whole has been export-oriented, with the possible exception of Slovenia in the last few years, since it endured that crisis earlier and was the first to take steps to develop an export orientation in industry and in general, to say nothing of the methods it used to attain this end.

Now that is the way it is: a debt of \$19-20 billion has been accumulated, when everything is collected. In the estimates of domestic and foreign institutions, that debt began to grow at a gallop beginning with 1973, but the blackest moment came in 1975. That year we began our headlong descent into crisis. Especially in the second half of the 1970s, through the race to acquire credits all the contradictions of our society came to the fore. Even though economic conditions worsened throughout the world, from rising interest rates to oil prices and the like, our Yugoslav greed and megalomania paid no attention.

There Were Serious Warnings

[Question] As far as I know, President Tito himself warned of the danger of excessive indebtedness, and I recall a presentation by Kardelj at a session of the social councils on Brioni, in which even at that time he apparently sensed the difficulties we were going to encounter. Nevertheless, it turns out that everything continued in a rather senseless way, as if there had been no warnings (although of course it is easy to pretend to be wise now). Why did everything go that way?

[Answer] It is not true that there were no warnings. In the early 1970s, there were already serious warnings that we should not make megalomaniac plans. Even Croatia broke with that policy at one time in 1972, or at least attempted to do so, but all of that lasted only a short time for Croatia--and I am speaking about Croatia because I know its situation better. Probably other parts of the country stopped with mere attempts to pursue that aim. Then we began with the so-called preliminary decisions,

but that too was insufficient and weak in the face of the mighty urge to develop at any cost. As I already said, social instruments were subordinated to that drive. Thus, for example, 60 percent of operating capital could be spent for capital investments. The customs policy also stimulated imports, and many other legal instruments affected that sort of development of affairs. Since domestic capital accumulation was not sufficient, we spent operating capital and scraped the bottom of the barrel, spent deposits, and put everything into consumption and investments, so that we were investing at the expense of future capital accumulation.

Exchange-rate differences patronized all of that, and losses were not even covered. The monetary and credit policy was always restrictive relative to the growth in social product, leading to a situation where the society had an enormous dinar reserve formally, but in actual practice there was none. The sociopolitical communities paid more attention to expenditures, particularly for the infrastructure (which was their main concern), so that they took needed resources away from the economy. Thus we spent part of the future. Once again I would assert that it is not correct to say there were no serious warnings, for there were many of them. During the 4 years I was in the [Croatian] Assembly, we worked on financial reorganizations more than on anything else. But great resistance confronted all of that, from all directions in the structure. No one perceived where these things were leading us.

Who Pays for Whom?

[Question] Can it be that people thought someone else would pay for all of that?

[Answer] No one thought that anyone would have to pay. No one thought at all about paying. That was the general climate. Now there's an end to all of that.

[Question] Everyone has to pay his own bills?

[Answer] In principle it is correct, and we must hold to it, that whoever incurs debts, or overinvests, must pay the bills. There can be no retreat from that position. But the situation is not the same everywhere, and so there are various opinions. For example, in one republic, production has increased 3 percent this year, while in Croatia it is lower than last year by, I don't know for certain, but perhaps 5 percent. Since in Croatia we are in such a foreign-exchange situation, and we are also less liquid in dinars, it is clear that now it is most difficult for us. Exchange differences for oil and other obligations have hit INA in particular, while price increases have moved more slowly. All of that increased INA's losses, even though part of those losses should have been shared by all Yugoslav consumers. Nevertheless, the burden fell mainly on INA. The latest price increase eased the losses somewhat, but since the dinar exchange rate is constantly slipping, the losses are returning. Thus it is perfectly clear that the solutions that are being offered are a

reflection of varying positions of sociopolitical communities. That is understandable and natural, but it also opens the possibilities for varying calculations as to who is likely to get by the best, who is likely to get out of trouble, and who is going to "go under" and the like.

You see, some people think that one or two parties can get out of the situation, even if all the rest cannot, or that nearly everybody can escape these difficulties, even if one or two do not. That is a great illusion. If the country as a whole cannot recover, then no one can, and every individual interest that does not respect that fact will be destroyed of itself. Therefore, we must seek a mutual solution for the most urgent matters. We do not want anyone to pay for anybody else, but the trick is how to create a program and find mutual solutions to extract everybody and each one in particular, without that happening at the expense of anyone else.

On the other hand, we also have less developed republics and the province of Kosovo in the country, which have undergone accelerated general development, but where the structure of social and economic development has not always corresponded either to our needs or to the demands of the world economy. As we have already seen and know very well what all has happened, it is clear that we reached a point of mutual competitive destruction in that senseless capital investment building, and we did not collaborate or have any true form of cooperation between various industries in different parts of the country. Thus we built installations that now are not providing the expected results, and which by their exports and other production are incapable of covering their expenses. Now the logical question is asked as to how to find solutions and as a whole community, help by some act those who are in that situation in both foreign-exchange and dinar accounts. And nearly everywhere the situation is such that nothing can be done without some sort of mutual solutions; clearly no one can extract himself unless all of us escape from the situation. It is not a matter of paying for someone else through some sort of enforced solidarity. We do not support that kind of solidarity, but we do support the solid extraction of the country as a whole from the situation. The answer to your question about our chances is there somewhere. It is not really a matter of how our chances are, or whether I believe or do not believe that we will extract ourselves from this entire situation. We simply must do so, and as soon as we perceive that we must extract ourselves, then we must all work at the task, which will move forward with difficulty and will take years. Now there is talk, and it is more or less settled, that major supplemental credits will be granted, and it is becoming clear that without them we would need dramatic domestic efforts in the country to extricate ourselves from the economic situation.

We Would Survive, But at a High Price

[Question] That apparently would be a very risky prospect?

[Answer] It would be risky, and it would require drastic sociopolitical measures, and the result of it would be uncertain. Nevertheless, even though people's consciences and behavior and also conditions today are not the same as after the Cominform resolution, I still believe that we would survive that dramatic situation with similar strength, but at a great price. But to discuss that would be nothing but vain guesswork. Now it is more important for us to think carefully about how we can alleviate the situation with the aid of these new credits, for they by themselves would not mean anything other than yet another stone around our neck if we do not utilize them in the best possible way, and that means to change our previous behavior completely. We need not change anything essential in the system, but we must change some aspects of previous policy. We must especially change our economic policy with serious new undertakings. It has already been said that we must use these credits to increase production for export by making the best possible use of existing facilities and by paying back our debts regularly. The question of exports is not a matter of some short-term policy. Do you know the English saying "export or die?" But it is not only a question of that. We must undertake endeavors in the country's economic structure, in perceiving the meaning of production and productivity, which must strive for confirmation in world markets, in world competition. Precisely for that reason, export is a fundamental question for the strategic development of the country, and not just a matter of paying back debts.

Both Stalinism and Dogmatism in General Still Remain in Many People's Heads

Right now we are exporting \$10 billion worth of goods and services per year, that is the foreign-exchange income from such transactions. In order to recover in 4, 5-7 years, we would have to add another \$20 billion of exports annually. Therefore, what should our developmental strategy be now? To make maximum use of existing capacities, to supply them with semimanufactured and raw materials and to mobilize and use the total human potential at our disposal. We have no choice! Our great reserves are precisely in human resources, and there are great possibilities there. But as you know, the people would rather listen to a sweet lie than to the bitter truth. So keep your wits about you and openly look the truth in the face: other than the capital investment construction needed to correct the existing structure, partly in the energy field, there simply will be no resources for any other major capital investments. There will be none for many years. We must reconcile ourselves to that, we must come to our senses, the final hour is at hand. And yet you see, I am not sure that all of us here in Yugoslavia have perceived that as yet, that we will do things that way, that the fact has been driven home. Naturally, in Croatia too, there is still some misunderstanding of that fact.

Shall we begin major capital construction and invest \$200 to \$300 billion in agriculture when we simply do not have the money? Yet we know that in the past period, we invested about that much in food production in

Yugoslavia, and it was not increased in any sort of proportion to those enormous investments. Lack of money drives us to work rationally in agriculture as well, to make smaller investments in Croatia now to expand the amount of tillable land by 100,000 hectares and receive new value in a year or two and make better use of existing facilities, particularly in animal husbandry. That should be the orientation, and it should be the same for industry.

In my opinion, those are the only real plans for the future. We must subordinate all instruments to them, to support those things and invest in those things that can be exported and that will pay all those debts. We must give full reign to industries and tourism that has that orientation, and we must develop small business without the previous limitations and suspicions, for that would create jobs for hundreds of thousands of people. It would also supplement industry, providing many products needed by industry that previously have been imported. Yet we cannot do all of that if everyone in the country does not strive for the same goals, all the way from the basic organization of associated labor [OOUR] and the local communities to the opstinas, republics and provinces and finally, the federation.

[Question] And people still do not perceive that?

[Answer] Unfortunately, there are still requests for the same policy or for a similar one, just a bit disguised, so that it occurs that our personnel worries most about the infrastructure, and about common expenditures, while that must all come to an end. Part of the population, especially the farm population, has enormous resources that are immobilized, which could be utilized as self-contributions or in other ways.

People give little thought to that. At times such initiatives are squelched, but I think that today we are in a situation where we should think in an entirely different way. We must open up the possibilities for people to work with their own investments and stop being constantly afraid of one another, and of possible threats to socialism, etc. On the other hand, we must also open and expand the possibilities for joint investments with other countries. We dare not be so afraid of that, while naturally at the same time we must preserve the sovereignty and integrity of our land.

I say these things because unfortunately, our heads still contain many remnants of antiquated notions, even remnants of Stalinism and dogmatism in general. We are all burdened by various major projects and gigantic installations! How could we be involved in any sort of small endeavors? A hundred obstacles stand in the way of every initiative, and what is concealed behind them? Such perceptions are foreign to socialist self-management. I have already said once that we must show more breadth in the situation in which we find ourselves. It certainly is not normal, so the difficulties are great and cannot be normal ones. When that is the case, you must give people who are working in the economy enough

freeway to fight their way to the resources they need, you must not fetter their initiative or threaten them with all sorts of calamities, driving them into conservative risk avoidance, inactivity and passivity.

But people find a way, and they will get the resources in the interest of the collective. They will obtain credit somewhere, because they cannot pay cash, as long as the production goes on. Yet we are immediately on their necks, declaring them to be criminals because they paid a higher price than if they had been able to pay in cash! There is no healthy economy without people's initiative, no real business without business risks, but with our positions often the only thing we accomplish is to cause people to retreat. I already notice some despair among the common people, and there are even some signs of resignation. If that attitude were to take hold among the cadres, then no amount of new credits would rescue us.

I think that we have enormous opportunities, because we have enormous reserves in all those things, but we must change. What would happen to our tourism if we had no private services? Let's give people room to work, let competition develop, and then speculation will be less common, and no one will be able to become rich in a short time. That will not destroy the system.

There is no pure system either in the economy or in politics or ideology now, and there will be none in the foreseeable future. We must take into account. It is now apparent that our current socioeconomic system must have room for state intervention. As long as particularism appears and threatens communality, there will always be legal manifestations of centralism. The reverse is also true. Aggressive liberalism pours water on the mill of dogmatism, and the reverse.

What Is Happening with the League of Communists?

[Question] If things stand that way, the question arises automatically as to what is happening with the organized socialist forces in that entire situation. What is the place and role of those forces, primarily the League of Communists, today, and how much can they affect changes in our behavior?

[Answer] We must bring people into a socioeconomic position that will change their behavior. Certainly, the conscience of the society's progressive forces can influence change in behavior and other things, but one cannot happen without the other, and will not happen. We must recall the 10th Congress, and the two later congresses, to say nothing about all the documents we have from other organizations and institutions all the way up to the assembly. Those documents are well written, I think, and they contain worthwhile positions and conclusions. When we think back over the way things have gone, in the period that has passed they have not improved. On the contrary, the situation has been increasingly difficult. That means first of all that the instruments of economic policy have not been coordinated with our strategic orientation.

I believe in man, but I don't believe in his behavior if he is not forced to behave differently. What does that mean in practical terms? If our banks and sociopolitical communities have supported a policy of development where the producers had little or no influence, that means that we must change the position and influence of the banks and sociopolitical communities if we want to achieve coordination with the strategic determinations of the documents.

If this does not occur through self-management negotiation, then we will have to make legal provisions that resources cannot be spent without prior approval of the producers. Also, anonymous capital that the banks have had at their disposal, along with other social resources, must be liquidated.

There is no great wisdom in that. At this time the League of Communists must absolutely mobilize the working class and the working people for a program of stabilization and reform of economic policy together with the self-management institutions, for that is the only way we can escape from the crisis. It must also organize them, all the way from the OUR to the top, for integration of the country's entire economy, for a firm bond throughout associated labor that will truly reflect its title, so that productive forces will rise to a higher level and productivity will increase. The subjective factor must organize the working world in the struggle for higher income and more rational production that will be competitive in world markets. That is the basic task.

Precisely the documents of the Kraigher Commission now offer practical solutions that would be subordinated to such a policy and that would provide arms for subjective forces. Naturally, that must be confirmed in practice. The League of Communists will also obtain those arms, and now the question is whether it will know how to use them. But we should not idealize even the League of Communists here, for it, too, is subject to all these objective trends. Its strength will be displayed if it can see at least a step forward. Today, unfortunately, because of all the various things we have talked about and some we haven't mentioned, the LCJ frequently offers some sort of practical solution, but does not always see the next step forward. In a theoretical sense, so to speak, we provided the conception for the society's development with the constitutional amendments of the 1970s, the new constitution and the Law on Associated Labor. But we came up lame and fell behind in applying that concept to practical solutions.

[Question] This time we haven't spoken particularly about responsibility, but it is worth posing the question as to how we will deal with those who have not matured to this situation. Is it also your perception that there, too, we have not been resolute enough?

[Answer] Yes, that is true. I think we have not, but we are beginning to be, and we must be even more resolute if we want to survive. People will make even greater sacrifices if they see that all of us are collaborating in that effort, and that we have no choice but to struggle. There will be opportunism and familiarity, as well as backsliding and

various vested interests, and attempts to preserve entrenched positions, but we must break all of that and institute an iron, yet human, discipline regarding work and moral values, precisely for the purpose of preserving greater freedom, both in human and in self-management terms. There is no other way out.

The League of Communists is beginning to adjust to that demand of the times, and a new atmosphere is emerging, but it is still not enough.

[Question] Currently there is a lot of conversation, even among members of the LCY, about how the party is an insufficiently utilized force. It shows weaknesses. Some attribute that to its massiveness, some to its manner of working through forums, while others believe that the LCY exceeds its authority. How will it adjust to meet these difficult times?

[Answer] First, we must perceive that for the last decade, and even a slightly longer time, during the course of that kind of socioeconomic and political development--perhaps dating from the Fifth LCY Congress--the party has sought to transform itself from a party in power into a party of the system, to put it simply. There were various occurrences and oscillations in that process, and there was not always a steady forward movement, or even the possibility of pursuing that desire.

Since in the past decade of social and economic development the real economic might has been in the hands of a structure outside the economy, or chiefly in the control of structures ranging from the banks to the sociopolitical institutions and communities, the party has found itself in that situation, and it could not be in some other system that does not exist.

As it moved about in that sort of social milieu, in objective terms it behaved in a suitable manner. That was perceived rather quickly, and it could not continue to exist. For that reason, constitutional changes and the Law on Associated Labor came about, with the intention of changing social trends and thereby, the party itself. But we are not only a society of socialist self-management, but also a multinational community with great differences in level of development, as well as other conditions and heritage. All of that had its impact on the behavior and the conscience of the people within every republic and province, and between them

Now we are correcting all of that and attempting to work everything out and assure the results, for we are like that: When the water gets up to our throat and when we get into absurd situations, then we are best able to behave as we should and take the most resolute steps.

This stabilization program, or as I would rather call it, reform or revolutionary changes, has already started to change the LCY itself. One can feel that its behavior is different. That, however, differs from one region to the next, and certainly the changes are not taking place as fast as we would like. Although it is true that at least the leadership

and leading individuals properly perceive the seriousness of the situation, nevertheless that perception only extends as far as each person's level of understanding of the state in his or her own area. Therefore, it is of the utmost importance now to find a synthesis and grow from that autonomous conscience on the bases of those various states and create a unity that will pull Yugoslavia forward, and thereby, advance every republic and province. Currently that is a great art. Not everyone sees a contribution to that unity in the same manner. Some may momentarily even slow its development, and in fact, everyone will have to sacrifice something for the future.

The Working World Is Ready to Sacrifice, But Everything Has Its Limits

[Question] Despite the difficulty of the situation, everyone still notes that for now at least we have no social unrest. That is certainly encouraging. How do you interpret that?

[Answer] That question can really be posed, but that status should not lull us. Part of the population obviously still has reserves from various sources that permit them to compensate for the real fall in the living standard, but such reserves cannot last long. Elsewhere, where there are no such reserves, even though the standard has fallen, elementary needs are still not threatened, yet people still understand that they have lived better and attained more than was realistic for our level of overall development. The people are dissatisfied, but not rebellious. Our people are patient, but that is not the only factor. There are other things that contribute to bearing difficulties more easily, from hot meals at the plant all the way to "jobs on the side" and shoddy workmanship and the like, not to mention the many workers who live in villages and still get help from their fields. Besides that, our working people are not uninformed. They follow what is happening in a world that is armed to the teeth, full of unrest and suffering, the most diverse dangers all the way to war and intervention. Our people follow that, and they are willing to sacrifice something to preserve their peace and existence. The experience of others are only lessons for us. It is clear that there are limits to all of that.

Therefore, even though our reserves are enormous both in economic and in social terms, I still think that our subjective factor can achieve serious results in the best and quickest way if it adopts and fights for the reform policy we have already begun. In that sense as well, one can already feel how the activity of the LCY is growing together with all efforts in the society, for if such efforts were not present, things would become much worse and the situation would become hopeless. That certainly does not mean that the LCY is not still burdened with many "impurities," there are many weaknesses, and deviations and moral crises still occur within it, yet people still find in it their only faith, a firm hope that together, we can extract ourselves from our woes.

[Question] I agree with you that the masses of our country accept the LCY as something to which they have become attached, and there is no other force that could replace it in good times or bad. Yet at the same time, there is a conviction, or only a notion, that the individual reputations of communists is quite threatened, and that their working influence is not valued particularly, for often there is not very much of it.

[Answer] I hope that for most of the population, the LCY still has prestige and that the people have faith in it. But the LCY must constantly reconfirm that, and it must confirm itself in constant struggle for the interests of the land and the people. If the people are not mobilized and the workers are not brought into the battle for the reform, nothing will come of any of it. By itself it will be nothing. It will become a sect that has some visions, some ideals that it has not realized, and it will leave the stage of history. It can be nothing other than the property of those working people, and it must fight to remain that. That is clearer today than ever before. In general, the final conclusion, as has already been said, will be the fate of the country, the fate of the people and the revolution itself, and the party itself. Yet there are people who do not see that, or who do not care about it. Among our ranks as well, there are such people, who should be ashamed of themselves.

At the party conference, I brought out how many communists are under the threat of the Legal Code for crimes and various other compromising matters. True, compared to its total 2 million members, that is a relatively small number, but it is a good warning. There are also leaders who have quite a few offenses, who lack prestige or who objectively behave in ways that cause them to fall in others' estimation, even if in some cases this is unjustified. When, however, there is a crisis situation in economic and social development, all of that comes quickly to the fore. Therefore it is essential that communists, and especially leaders, now should be clean of everything. We must begin more sharply to clean all the transgressors from our ranks, without mercy. Even though they are not our opponents or enemies, but have only succumbed to human weaknesses, objectively they become opponents. People with such behavior must either change or go, with the proviso that they must really be judged correctly, realistically and honestly, so that later it will not appear that there had been nothing there.

[Question] Yet it seems that there is not enough resolve for doing that?

[Answer] That is probably true, but things are maturing somewhat. I watch the reports daily, and there are more and more things happening. We are lagging, but the process is open and we must strengthen it.

[Question] Sometimes fighters suffer, but almost nothing ever happens to those who do nothing, or risk nothing.

[Answer] It has always been that way since the human race existed. It has been and will continue to be for a long time yet. But we must do a clean job of clearing everything up. You know, even those observers,

to give them a name, when they come into a situation or are brought into one, where they must make a decision, do make one. They criticize us that we are overly burdened by the war of national liberation even today, but we must always return to that.

Like every army, the partisans contained both heroes and cowards. But even those who were fearful, when they found themselves among other fighters and the going got tough, had no choice but to fulfill their battle function. Those communists who are only being observers must also be brought to a position where they have no place to go. They will either desert or go to the front! If we do not achieve that, then we speak of differentiation in vain.

[Question] If you will permit me, was it all much simpler in the war?

[Answer] Naturally, I am only speaking symbolically. Today there are many other levels to things, and many other possibilities for everyone in that conglomerate to extract everything of all kinds and wriggle out to find some leeway.

Changes in the Journalist's Fate

[Question] If you agree, Comrade Bilic, I would end by asking you a question about the fate of us journalists. You have been a very sharp critic of the press. What is your opinion about the newspapers today? Are they able to change to become real fighters in these difficult times, or are you happy with the newspapers as they are?

[Answer] In particular, I think today that the press still contains quite a few apologetics, at least as far as the public organs of Croatia that I know best are concerned. If I were to make a comparison, as far as I am concerned a biting, critical press is more to my liking, even if it exaggerates. Yet I also oppose the approach of devaluing and "beheading" everything and conducting some sort of campaign through the newspapers, creating a public psychosis that here in Yugoslavia everything is thievery, immorality, etc. Who will you believe in then? Besides that, this situation is tough enough for us as it is, and everything is beginning to fall under suspicion.

Even the LCY and Tito have been brought under suspicion! Did Tito know about Hebrang, was Tito an agent of the Comintern? Did he quarrel with Stalin because of his personal ambitions at that time? How can one accept that kind of public word, such writings, such questions, such deceptions? I say once more that I am not for apologetics, I am against newspapers that do nothing but praise or do not get involved in anything, that do not analyze or trace events, but only preserve their own tranquillity and fawn upon someone. In that sense I think that the journalists' fate that you mention in your question must be changed, and the

journalists must change their behavior, like the rest of us, for only in that way can these moments of crisis and these difficult times be overcome. I firmly believe that we have the strength for that, and that we will emerge from it all even more united, firmer, stronger and certainly more prepared for the future.

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